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FINANCIAL REPORTING IN EMERGING CAPITAL MARKETS: A CASE STUDY OF GHANA

VOLUME 1

by

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Declaration

I declare that this thesis has not been submitted to any institution for an award of any degree nor published in part or in whole.

Kofi Koduah Sarpong

ABBREVIATIONS

AAA	American Accounting Association
AAC	African Accounting Council
ABWA	Association of Accountancy Bodies in West Africa
ACP	African Caribbean and Pacific
ADB	African Development Bank
AFA	ASEAN Federation of Accountants
AGC	Ashanti Goldfields Company Limited
AICPA	American Institute of Certified Public Accountants
AISG	Accountants International Study Group
AMEX	American Stock Exchange
BOG	Bank of Ghana
CAPA	Confederation of Asian and Pacific Accountants
EC	European Commission
ECMs	Emerging Capital Markets
ECOWAS	Economic Community of African States
ED	Exposure Draft
ERP	Economic Recovery Programme
EU	European Union
FASB	Financial Accounting Standards Board
FASR	Federation of Accountants in the SADCC Region
FEE	Federation des Experts Comptable Europeens
FIBV	Federation Internationale des Bourses de Valeurs
FINSAP	Financial Sector Reform Programme
FRS	Financial Reporting Standards
GAAP	Generally Accepted Accounting Principles
GCB	Ghana Commercial Bank
GDP	Gross Domestic Product
GOG	Government of Ghana
GNASB	Ghana National Accounting Standards Board

ABBREVIATIONS

GNASBs	Ghana National Accounting Standards Board's standards
GSE	Ghana Stock Exchange
IAAER	International Association for Accounting Education and Research
IASC	International Accounting Standards Committee
IASs	International Accounting Standards Committee's standards
IBA	International Bar Association
ICAG	Institute of Chartered Accountants (Ghana)
ICAEW	Institute of Chartered Accountants of England and Wales
ICC	International Chamber of Commerce
ICFTU	International Trade Union Confederations
IFAC	International Federation of Accountants
IFC	International Finance Corporation
IMF	International Monetary Fund
IOSCO	International Organisation of Securities Commissions
IRS	Internal Revenue Service
IVSC	International Valuation Standards Committee
MNCs	Multinational Corporations
NDC	National Democratic Congress
NYSE	New York Stock Exchange
OAU	Organisation of African Unity
OECD	Organisation for Economic Co-operation and Development
OTC	Over-The-Counter
PNDC	Provisional National Defence Council
PW	Price Waterhouse
RGD	Registrar General's Department
SAP	Structural Adjustment Programme
SOEs	State-Owned Enterprises
SRC	Securities Regulatory Commission

ABBREVIATIONS

SEC	Securities and Exchange Commission
UN	United Nations
WCL	World Council of Labour

ABSTRACT

This thesis investigates the evolution and quality of financial reporting in Ghana from 1988-1997. The issues examined are comparability of accounting measurement methods, adequacy of disclosure and relevance, promotion and observance of the standards of the International Accounting Standards Committee (IASC). The impact of three factors, namely, firm size, listing status and accounting regulation on financial reporting are evaluated.

The accounting measurement and disclosure practices in Ghana were ascertained from the 1988-1997 annual reports of fifteen non-financial companies listed on the Ghana Stock Exchange (GSE) on 31 December 1997. Interviews with the executives and auditors of the sample companies, financial analysts and regulators of financial reporting in Ghana were also conducted. The data were analysed using nonparametric statistical techniques.

This study reveals that the establishment of the Ghana Stock Exchange and the introduction of new accounting regulations in Ghana did not alter significantly the accounting measurement methods used by the companies studied from 1988-1997. While mandatory disclosure declined, overall disclosure, voluntary disclosure and, in a large measure, the disclosure of categories of information increased over the ten years. Firm size and listing status were found to be significantly positively associated with overall disclosure and voluntary disclosure. Accounting regulation was significantly positively associated with overall disclosure, but not mandatory disclosure. The impact of firm size, listing status and accounting regulation on disclosure of categories of information was mixed.

IASC standards were perceived by corporate executives, statutory auditors, financial analysts and regulators of financial reporting in Ghana to be an influential factor in the development of the Ghana Stock Exchange. The Institute of Chartered Accountants (Ghana) and public accounting and auditing firms of the sample companies were noted to be active promoters of IASC standards in Ghana. On the whole, the observance of IASC standards in Ghana increased from 1988-1997 and was comparable overall to levels found in other countries. Listing status and accounting regulation, rather than firm size, were found to be significantly positively associated with the observance of IASC standards in Ghana from 1988-1997.

CHAPTER I

INTRODUCTION

1.1 QUALITY OF FINANCIAL REPORTING IN CAPITAL MARKETS

Capital markets in developing countries, which constitute a significant part of what has become known as the emerging capital markets (ECMs), are an integral segment of the global capital market and cannot, therefore, be viewed in isolation. ECMs compete for investment funds and investment opportunities with the developed capital markets. It is necessary, therefore, that ECMs become well positioned if they are to compete favourably with the developed capital markets. This requires that measures appropriate to their growth are promoted. One such measure is high quality financial reporting, at which this study is directed. A high level of accountability and transparency in corporate dealings, among others, increases the confidence that investors have in capital markets [Sutton, 1997].

The financial reporting process produces information which is used by investors to monitor the behaviour and actions of management and for making investment decisions. The separation of ownership and management inherent in the modern corporate structure makes it necessary for investors to monitor the actions and performance of management in order that their interests may be protected. This monitoring process feeds on information [Watts, 1977; Watts and Zimmerman, 1978, 1979]. Investment decision making involves an assessment of the probability distribution of future returns and the selection of securities which offer investors the best returns for their risk preferences [Mendelson, 1978]. This process is hindered by uncertainty. The availability of financial and other information reduces uncertainty. The monitoring of the actions and performance of management and investment decision making are aided by high quality corporate information generated by the financial reporting process.

The quality of financial reporting can be viewed in terms of comparability and adequacy [Friend and Herman, 1964; Stigler, 1974; Mendelson, 1978; Benston, 1980; Gray et al., 1995; IASC, 1997]. Comparable financial statements are needed for the evaluation of the performance of a company over time and against other companies. This requires that financial statements of companies are prepared using similar standards and also on a consistent basis from year to year. Adequacy of financial reports refers to the extent to which the information disclosed meets the needs of investors at a given time. Adequacy requires that financial information should be comprehensive and relevant. Financial reports should therefore provide information for the appraisal of a company's past performance and as well as predicting its future performance [Singhvi, 1967].

Accounting standards, whether developed for domestic or international application, aim at ensuring comparability and adequacy, among others, of financial reports. Such has been the aim of International Accounting Standards (IASs) developed by the International Accounting Standards Committee (IASC). The observance of IASC standards by companies should foster comparability and adequacy of financial reports. Similarly, domestic accounting regulation should, all things being equal, lead to comparable and adequate financial reports.

The accounting infrastructure is, without doubt, an important factor in the development and growth of ECMs because it is a major source of corporate information. However, it is generally the case that the quality of financial reporting leaves much to be desired. Not only are regulations inadequate, non-compliance with regulations is widespread. Apart from low disclosure levels, diversity in accounting methods used by companies in ECMs is prevalent [Singhvi, 1967; Jaggi, 1975; Firer and Meth, 1986; Meek and Saudagaran, 1990; Al-Hajeri, 1992; Nicholls and Ahmed, 1995; Saudagaran and Diga, 1997b]. The perceived low quality of financial reporting also raises doubts about the observance of IASC standards in ECMs. It is generally contended that the perceived low quality of financial reporting in ECMs is an inhibition to their growth as it tends to erode the confidence of investors [Scott, 1970; Quershie, 1974; Calamanti, 1980a, 1980b; Samuels and Yacout, 1981; Enthoven, 1981].

The conclusions offered on the quality of financial reporting in ECMs have been based on a few research studies. Moreover, ECMs are not a homogeneous group, and as such, generalisations should be viewed with caution. Against this background, there is the need to conduct research into financial reporting in each ECM to ascertain the quality of financial reporting. Such studies should encompass the evaluation of the observance of IASC standards which have the potential to enhance the quality of financial reporting in ECMs. Research into the above issues will not only increase our knowledge of the subject, but may provide data which can be used by interested agencies to initiate policy measures.

The quality of corporate financial reporting in any country is the outcome of interplay of environmental factors. These environmental factors are capital markets, political systems, economic systems and level of economic development, taxation, legislation, culture, colonialism, accounting regulations and regulatory systems, political systems, type and characteristics of business enterprises, sophistication of management, professional development, education, multinational enterprises, international accounting firms and international organizations [Mueller, 1967; Gray, 1988; Adhikari and Tondkar, 1992; Nobes and Parker, 1995; Willman, 1997, Radebaugh and Gray, 1997]. The quality of financial reporting in any country, Ghana is not an exception, is better understood by reviewing the impact of the factors mentioned above on its development.

1.2 RESEARCH QUESTIONS AND OBJECTIVES

Ghana made a significant step in 1990 to develop its capital market by establishing the Ghana Stock Exchange (GSE). The Ghana Stock Exchange is part of the global market and has an international outlook which is manifest by a significant presence of foreign investors. Like other ECMs, a high quality financial reporting system is needed and this has been recognised in the GSE [IFC, 1987]. A step towards achieving a high quality financial reporting in the GSE was taken with the introduction of financial reporting regulation under the Ghana Stock Exchange Listing Regulation 1990, L.I 1509. Subsequent to the GSE listing regulations, the Institute of Chartered Accountants of Ghana (ICAG), commenced the development of accounting standards for Ghana in 1994. These events provide an opportunity to assess the impact of accounting regulation and the development of the capital market on the evolution of financial reporting in Ghana. These landmarks plus an evaluation of the influence of firms characteristics and other environmental factors offer a means to track and explain financial reporting in Ghana.

The main purpose of this study is to evaluate the quality of financial reporting in Ghana in the context of the GSE and the development of international capital markets. Primarily, the issues focused on are the extent of comparability of accounting measurement methods and adequacy of disclosure practices and factors influencing these in Ghana. The impact of three factors influencing financial reporting are studied. These are firm size, listing status and accounting regulation. Adequacy of financial reports is conceived from two perspectives. These are the extent to which corporate financial disclosure meets investor information needs and the extent to which financial reports are in line with IASC standards.

The specific questions pursued in this study, for which the relevant hypotheses to be tested are developed in Chapter VIII, are:

(1) What is the degree of comparability of accounting measurement methods in Ghana?

(2) What factors influence the degree of comparability of accounting measurement methods in Ghana?

(3) What is the extent of corporate disclosure in annual reports in Ghana?

(4) What factors influence the extent of corporate disclosure in annual reports in Ghana?

(5) How influential are IASC standards in the Ghana capital market?

(6) What is the extent of observance of IASC standards in annual reports in Ghana?

(7) What factors influence the extent of observance of IASC standards in annual reports in Ghana?

This study of financial reporting in Ghana covers a period of ten years, 1988-1997. Studying a ten year period affords an historical analysis of financial reporting practices and provides insights into the forces which have shaped financial reporting over the period. The disclosure medium to be focused on in this study is the annual report. Opinions on relevant issues are also sought from executives and auditors of the companies studied, financial analysts, and regulators of financial reporting in Ghana.

1.3 METHODOLOGY

Two research techniques are employed to collect data. These are content analysis and interviews. Content analysis is used to ascertain financial reporting requirements and identify accounting measurement methods and disclosure of items of information in annual reports of the companies studied in Ghana. Interviews are conducted to gain insight into the subject. Where appropriate, statistical methods are used to test the hypotheses.

1.4 IMPORTANCE OF THE STUDY

This study is important from the following standpoints:

(1) It is the first study of its kind in Ghana. It also represents a further contribution to the financial reporting literature on emerging capital markets in developing countries.

(2) It could provide insights into the observance of IASC standards in Ghana. This is of use to the IASC in evaluating its successes and remaining challenges to the harmonisation of financial reporting in Ghana with global practices.

(3) This study has policy implications of potential interest to the Government of Ghana (GOG) and financial regulatory agencies. Bottlenecks or gaps, if any, in the financial reporting regulations and practices in Ghana will be known as a result of this study and this may provide a basis for taking remedial measures.

1.5 ORGANISATION OF THESIS

This thesis, including this introduction, has been organised into fifteen chapters. A review of literature is covered in chapters II to VII, including background information on Ghana, the country where this study has its primary focus. The research questions and hypotheses investigated are discussed in chapter VIII with chapter IX focusing on methodological issues. The findings are reported in five chapters covering chapters X to XIV. A summary of the study, findings and conclusions are presented in chapter XV. The contents of each chapter are detailed below:

CHAPTER I: INTRODUCTION

The research questions investigated and objectives of the study are stated. The methods used to collect data and the importance of the study are covered. A schematic presentation of the thesis is provided.

CHAPTER II: THE GHANA CAPITAL MARKET AND FINANCIAL REPORTING ENVIRONMENT

Background information on Ghana is provided to put the study into context. Issues covered are: the physical location, peoples, political development, economy and economic reforms, financial system and institutions, evolution and regulatory framework of the Ghana Stock Exchange and financial reporting regulations and regulatory institutions.

CHAPTER III: REGULATION AND STANDARDISATION OF FINANCIAL REPORTING IN CAPITAL MARKETS

The role of a capital market, importance and desirable characteristics of financial reporting in capital markets, influence of market pressures and regulation on corporate disclosure and models of accounting regulation are discussed. The benefits and problems of accounting standards are also examined.

CHAPTER IV: INTERNATIONAL HARMONISATION OF FINANCIAL REPORTING IN CAPITAL MARKETS

Issues examined include definition of harmonisation, international harmonisation paradigms and benefits of and obstacles to international harmonisation. The efforts of international bodies, namely, the International Accounting Standards Committee, the European Commission, the United Nations and the Organization of Economic Co-operation and Development, in promoting the harmonization of accounting internationally are analysed.

CHAPTER V: THE DEVELOPMENT OF FINANCIAL REPORTING AND THE RELEVANCE OF INTERNATIONAL ACCOUNTING STANDARDS COMMITTEE STANDARDS IN EMERGING CAPITAL MARKETS

The evolution and characteristics of ECMs are examined. Environmental influences on the development and the quality of financial reporting, as well as the relevance of IASC standards in ECMs markets are discussed.

CHAPTER VI: REVIEW OF PRIOR EMPIRICAL HARMONISATION MEASUREMENT STUDIES

Empirical studies into the measurement of harmonisation are considered. Two main strands of such studies are summarised. These are: studies which assessed conformity with international accounting standards and studies which measured harmonisation of accounting measurement methods domestically and internationally.

CHAPTER VII: REVIEW OF PRIOR EMPIRICAL DISCLOSURE STUDIES IN CAPITAL MARKETS

A survey of prior empirical studies into corporate disclosure in capital markets is presented.

CHAPTER VIII: RESEARCH QUESTIONS, OBJECTIVES AND HYPOTHESES

The research questions and objectives are stated after which the hypotheses to be investigated are developed. The hypotheses are in respect of accounting measurement methods, disclosure of information and relevance, promotion and observance of IASC standards in annual reports in Ghana.

CHAPTER IX: DATA COLLECTION AND ANALYSIS PROCEDURES

The methods and procedures used to collect the data for the study and their limitations are discussed. The issues considered are: research strategies, justification for choice of Ghana, definition of period studied, samples and samples sizes, profiles of companies and research instruments and processes, interviewees, definition and derivation of disclosure indexes, influences of financial reporting studied and statistical techniques used to test hypotheses.

CHAPTER X: ACCOUNTING MEASUREMENT REGULATIONS AND PRACTICES IN GHANA

Accounting regulations pertaining to measurement methods in Ghana are described alongside the practices of the companies studied. The results of analysis of frequency of use and comparability of accounting measurement methods are reported. The items covered are valuation of stock-in-trade, methods for assigning costs to stock-in-trade, valuation of tangible fixed assets, depreciation of tangible fixed assets, foreign currency translations, treatment of translation differences, valuation of long-term investments and accounting for deferred taxation. The results and findings are discussed.

CHAPTER XI: A SURVEY OF DISCLOSURE REGULATIONS AND PRACTICES IN GHANA

Findings pertaining to disclosure regulations, style of presentation and content of annual reports are reported and discussed.

CHAPTER XII: EXTENT OF CORPORATE DISCLOSURE IN ANNUAL REPORTS IN GHANA

Findings in respect of the extent of overall disclosure, mandatory disclosure, voluntary disclosure and disclosure of categories of information are presented and discussed. The results of the analysis of the data and the findings are discussed.

CHAPTER XIII: IMPACT OF FIRM SIZE, LISTING STATUS AND ACCOUNTING REGULATION ON DISCLOSURE IN ANNUAL REPORTS IN GHANA

The impact of firm size, listing status and accounting regulation on the extent of disclosure is analysed, reported and discussed. Each factor is analysed and reported separately for overall disclosure, mandatory disclosure, voluntary disclosure and disclosure of categories of information.

CHAPTER XIV: RELEVANCE, PROMOTION AND OBSERVANCE OF IASC STANDARDS IN GHANA

The results of the investigation into the relevance and promotion of IASC standards by the Institute of Chartered Accountants (Ghana) and professional accounting and auditing firms of the companies studied in Ghana are presented and discussed. Also covered are the findings pertaining to the impact of firm size, listing status and accounting regulation on observance of IASC standards in Ghana.

CHAPTER XV: CONCLUSION

A summary of the research questions and objectives, hypotheses, data collection and analysis procedures and the key findings of the study are presented. The limitations of the data collection and analysis methods and the findings are acknowledged while areas for future research are also identified. Overall conclusions are outlined.

CHAPTER II

THE GHANA CAPITAL MARKET AND FINANCIAL REPORTING ENVIRONMENT

2.1 INTRODUCTION

The environment in which research is undertaken impacts on the methodology used and provides a context within which to interpret and appreciate the findings. Understanding the social, political, cultural and economic context within which this study is undertaken is deemed important. In this regard, this chapter provides some background information on Ghana to aid an understanding of the methodology used in this study and also to provide a framework for putting the results in context. The chapter is organised as follows: In section 2.2, some outline information about the location, physical features and peoples of Ghana is provided. Political developments in Ghana are presented in section 2.3. The structure and growth of the Ghanaian economy and reforms taking place are discussed in section 2.4. In section 2.5, an outline of the Ghanaian financial system is provided. The evolution and internationalisation of the Ghana Stock Exchange is presented in section 2.6. Section 2.7 is devoted to discussing the financial reporting environment of Ghana which covers regulatory institutions, sources and scope of regulations. Concluding remarks are given in section 2.8.

2.2 THE LAND AND PEOPLE

Ghana is a sub-Saharan African country with a total land area of about 238,537 square kilometres. The predominant vegetation of the northern part of Ghana is savannah while the south has an extensive rainforest belt. The population of the country is 17.5 million with an annual growth rate of 3.12% [Ghana, 1999]. There is greater concentration of population in the southern part of the country, with the highest densities occurring in the urban and the cocoa-producing areas. There are many ethnic groups in Ghana, each identified with a different language but the official language of the country is English, a legacy of British colonial rule.

2.3 POLITICAL DEVELOPMENT

Ghana was under British rule for over a century. In March 1957, she became the first sub-Saharan African country to gain independence from British colonial rule and was proclaimed a Republic in 1960. Ghana holds membership of the Commonwealth, United Nations, International Monetary Fund (IMF), the World Bank Group, Organisation of African Unity (OAU), African Development Bank (ADB) and the Economic Community of West African States (ECOWAS). In addition, Ghana is one of the African, Caribbean, and Pacific (ACP) nations who have acceded to the Lome III Convention which offers her links to the European Union (EU).

The four decades after independence have seen Ghana alternating between civilian and military regimes. Four successful *coup d'etats* with reigns spanning over nearly twenty-two years have been witnessed while there have been four democratic experimentations in Ghana. After 11 years of military rule, the country was returned to democratic rule under a presidential executive form of government in January 1993 when the administration of the country was handed over to the elected National Democratic Congress (NDC) Government led by the leader of the last military junta. The NDC was returned to power in December 1996 following elections. With democratisation of the political system, confidence in the investment atmosphere of Ghana, which had waned in the past due to the apparent political instability, appears to have been restored.

Ideologically, Ghana has gone through a number of phases. The post-independence era saw the adoption of a socialist philosophy to development with some measure of private capitalism. The dominant policy of state capitalism during the immediate post-independent period resulted in massive state investment. This resulted in the creation of a very large and unwieldy public sector.

2.4 ECONOMY OF GHANA

2.4.1 SECTORS

Ghana has a primary economy dominated by agriculture, mining, and forestry. Agriculture accounts for about 46% of GDP [GOG, 1995]. Cocoa is the most important cash crop. In addition, the country is rich in tropical wood and minerals, the principal ones being gold, diamond, bauxite and manganese. Gold and cocoa are the most important gross foreign exchange earners. The services sector comprising trade and public sector services which accounts for over 40% GDP while the industrial sector generates 14% of GDP. Modern and well-developed manufacturing and commercial sectors do not exist in Ghana. The manufacturing sector has been built on import-substitution and, as such, capacity utilisation depends, to a large extent, on the availability of foreign exchange to finance the importation of raw materials and equipment. The impact of Ghanaian manufacturing companies in the international markets is very marginal due to poor quality products.

2.4.2 ECONOMIC GROWTH

A high economic growth experienced in Ghana during the 1960s slowed down considerably during the 1970s. Between 1971-1983, the average annual growth rate in GDP in nominal terms was negative (-1.4%). While services grew marginally by 1.0%, agriculture, manufacturing, mining and services declined by 0.9%, 5.4% and 7.5% respectively [Kapur et al., 1991]. Over this period, export earnings also declined by about 4.7% per annum. While the worsened international economic environment was a contributory factor, reduction in productivity was a major cause of the decline in the Ghanaian economy. Cocoa, one of the principal export earners, saw its production falling from an annual average of over 566,000 tonnes in the 1960s to about 158,000 tonnes in the early 1980s [Lloyds Bank, 1986].

The Ghanaian economy during this period was also characterised by marked deterioration in critical infrastructure such as roads, railways, electricity, and telecommunications; high inflation; repressed interest rates; restrictive price controls; high money supply; and excessive exchange controls coupled with inability to service its external debt [Kapur et al., 1991].

2.4.3 STRUCTURAL ADJUSTMENT PROGRAMME

With the support of IMF and the World Bank, the Government of Ghana (GOG) embarked on a programme of structural adjustment in 1982. An Economic Recovery Programme (ERP) was launched in 1983 with the objective of correcting the imbalances in the Ghanaian economy and spurring on growth [GOG, 1984, 1985; Kapur et al., 1991]. The reform programme involved taking measures towards restructuring of institutions, diversification of the economy, balancing the national budget, liberalisation of trade and currency and attracting direct private investment. The ERP led to a dependence on international capital by Ghana on an unprecedented scale with an estimated 50% from bilateral and multilateral sources. The ERP recognised this potential danger of relying on the international community for finance and therefore made provision for the development of a capital market in Ghana to mobilise both domestic and international capital for investment [IFC, 1987]. A Financial Sector Reform Programme (FINSAP) which aimed at improving the operations of banks and other financial institutions and promoting the development of money and capital markets in Ghana is being implemented.

The ERP has made a positive impact on the Ghanaian economy although macro-economic instability still remains. The decline in real GDP in the early 1980s has been arrested and reversed. Since 1984, the annual GDP growth rate has averaged nearly 5% [Centre for Policy Analysis, 1997]. The agriculture, manufacturing, mining and services sectors recorded average annual growth of 2.7%, 8.2%, 9.5% and 7.5% respectively from 1983-1990 [Kapur et al., 1991]. Nevertheless, inflation and interest rates still remain high, while the depreciation of Ghana's currency, the cedi, continues unabated. The bank rate rose from 31.8% in 1991 to 45% in 1996. Inflation averaged 37.2% in 1990 declining to 24.9% in 1995 but rose to 46.6% in 1996. The nominal depreciation in the cedi was 12.6% in 1991, but by 1993 the loss in value had reached 60.4% which declined to 21.3% in 1996 [Centre for Policy Analysis, 1997].

2.4.4. FORMS OF BUSINESS ENTERPRISES

The dominant type of business enterprise in Ghana is the sole proprietorship. Companies are mainly of a private nature. In 1987 for instance, there were 31,860 private limited companies in Ghana compared with only 18 public limited companies [IFC, 1987]. The number of public companies were 21 at the time of this study. There is only one multinational company of Ghanaian origin.

Few large companies are found in the private sector which are mainly subsidiaries of multinational and foreign-owned enterprises in which GOG has some interest. In 1986, GOG had a majority interest in 54 companies in the private sector [State-Owned Enterprises Task Force, 1987] some of which have since been divested. [Gold Coast Securities Limited, 1995]. The privatisation of state-owned enterprises (SOEs) has been motivated by poor performance attributable to overstaffing, lack of technical expertise, inadequate working capital and investment in new plant and machinery, and absence of commitment and entrepreneurial direction, among other reasons.

2.5 FINANCIAL SYSTEM AND INSTITUTIONS IN GHANA

During the period of colonial rule, the Gold Coast (as Ghana was then called) had only two commercial banks. These were Bank of West Africa (which merged with Standard Bank in 1965) and Barclays Bank (Dominion Colonial Overseas) both of which were foreign-owned [Appiah, 1967]. The impact of the two banks in the domestic economy was limited since they operated only a few branches. Though the first bank branch opened in the Gold Coast in 1897, the two commercial banks had only a total of 15 branches in 1951. In general, the period of colonial rule in Ghana was characterised by low financial intermediation and low monetization of the economy.

An indigenous state-owned bank, the Ghana Commercial Bank (GCB), was established in 1953 as a precursor to post-independence expansion in the financial sector in Ghana. The birth of GCB was motivated by the need to have a state-owned bank to cater for the financing requirements of indigenous entrepreneurs who complained of discrimination against them by the two foreign-owned banks in the granting of credit [Appiah, 1967]. In 1957, the Bank of Ghana (BOG), a central bank, was established to regulate and supervise the banking system, among other duties.

The formal financial system of Ghana comprises a banking sector and a non-banking sector. The banking sector is made up of commercial banks, merchant banks, development banks and rural banks. Building societies, insurance companies (including a state-owned pension trust), leasing companies, a mutual fund, savings and loan companies, discount houses, brokerage firms and a stock exchange constitute the non-banking sector.

Table 2.1 Financial Institutions in Ghana: 1960-1997

Type of financial institution	1960	1980	1990	1997
	no.	no.	no.	no.
Banks	2	11	13	17
Building Societies	0	1	1	2
Savings and Loans	0	0	1	6
Discount Houses	0	2	2	2
Forex Bureaux	0	0	190	440
Leasing Companies	0	0	0	3
Mutual Fund	0	0	0	1
Insurance Companies[1]	n/a	17[1]	11[1]	23[2]
Brokerage Firms	0	2	3	11

[1] includes one state pension company.
[2] includes one each state pension company and reinsurance company

Source: Bank of Ghana, National Insurance Commission of Ghana, Association of Non-Bank Financial Institutions

As evident from Table 2.1, the financial system has expanded since 1990 given the types and numbers of institutions that have emerged. Until recently, GOG owned substantial interests in financial institutions. Under its divestiture programme, GOG has since 1993 embarked on the privatisation of state banks of which the two largest, GCB and the Social Security Bank (now SSB Bank Limited), have been privatised through the Ghana Stock Exchange (GSE).

2.6 EVOLUTION AND INTERNATIONALISATION OF THE GHANA STOCK EXCHANGE

2.6.1 HISTORICAL OVERVIEW

The idea of establishing a stock exchange in Ghana was conceived in 1957. In 1958, the first post-independence Government commissioned a review of the Gold Coast Companies Ordinance of 1948. The review culminated in the enactment of the Ghana Companies Code (1963), Act 179, to replace the 1948 Companies Ordinance. The new Companies Code, which in a large measure reflected the provisions of the UK Companies Act at the time, made provision for the establishment and operation of a stock exchange in Ghana. However, in view of the socialist agenda pursued by the immediate post-independent government, no attempt was made to establish a stock exchange as envisaged under the Ghana Companies Code.

The ousting from power of the first post-independent government in 1966 led to the adoption of a capitalist model of economic development which placed emphasis on the use of private capital. The new government took a concrete step towards the establishment of a stock exchange in Ghana when in 1968 it commissioned F. D. Pearl to examine the feasibility of establishing the institution. Following a positive recommendation by Pearl, a Stock Exchange Act (1971), 384, was enacted by the GOG to regulate the establishment and operation of a stock exchange in the country.

In spite of several other attempts which were made during this period to establish a stock exchange, it was not until 12 November 1990 that the Ghana Stock Exchange (GSE) was launched. The GSE was established against the backdrop of general reforms of the Ghanaian economy initiated by GOG in 1983, already mentioned in Section 2.4.3, on the private sector in the economic development agenda of Ghana.

2.6.2 ROLE OF THE GHANA STOCK EXCHANGE

The GSE is seen as a vehicle for raising capital by companies in Ghana. It is also projected that GOG and its agencies such as local governments would also use the Exchange to raise long-term capital for infrastructural development. Moreover, as initially conceived, the GSE has become a vehicle for the privatisation of SOEs. Some key SOEs have already been divested through the GSE and this has significantly boosted its liquidity.

2.6.3 LISTED COMPANIES, CAPITALISATION AND TRADING VALUES[1]

From an initial eleven companies in 1990, the number of companies listed in the GSE increased to twenty-one in 1997 [GSE, 1997]. Of this total, five are financial institutions and sixteen are non-financial companies. There are, however, twenty-three listed securities comprising ordinary shares of the listed companies, a dollar-indexed bond issued by the only unit trust listed in the GSE and a GOG bond. Only one of the companies listed in the GSE, Ashanti Goldfields Company Limited (AGC), is a multinational which is also listed on other foreign stock exchanges.

Capitalisation, trading values and returns of the GSE have been increasing since its inception. From an initial cedis 30.46 billion in 1990, the capitalisation of the GSE reached cedis 2,862.72 billion at 31 December, 1996 representing an increase of 9398.3%. Phenomenal increases in the capitalisation of the GSE were due to the listing of AGC and the two largest banks in Ghana, the Social Security Bank Limited and the Ghana Commercial Bank Limited, both of which were owned by GOG during the period. Values of shares traded in GSE also increased substantially in 1994 and 1995 following the sale of shares owned by GOG in some listed companies.

Finally, the GSE-All Share Index which measures the performance of shares in the GSE has witnessed substantial growth from 70.25 in 1990 to 360.76 in 1996 representing an increase of nearly 515% over the period

[1] see Appendix 26 for the Ghana cedi to US dollar exchange rates.

indicating that the GSE promises good returns to investors. Indeed, in 1994, the Federation Internationale des Bourses de valeurs (FIBV) adjudged the GSE as the best performing stock market among Emerging Capital Markets [GSE, 1995].

2.6.4 INTERNATIONAL DIMENSION OF THE GHANA STOCK EXCHANGE

Individual and institutional foreign investors have acquired shares in companies listed on the GSE, particularly, government holdings which were sold through private placements [Databank, 1994]. Foreign institutional investors, namely, Salomon Brothers Incorporated and Clients, Baring Asset Management, Buchanan Partners, Foreign and Colonial Emerging Markets, Genesis Partners, Picket Emerging Markets Trust and Emerging Market Management (The African Fund) had by 1994 acquired all the shares of GOG in seven listed companies [GSE, 1994]. Foreigners hold the majority of shares and capitalisation in all companies listed on the GSE. As at 31 December, 1997, foreign holdings in individual securities listed on the GSE ranged from 6.09% to 84.19% [GSE, 1997].

Other international dimensions of the GSE are mirrored through its international linkages and the listing of AGC in foreign exchanges. The GSE holds membership of international associations connected with or stock market development, namely, the Association of African Stock Exchanges and the FIBV and is currently seeking membership of the International Organisation of Securities Commissions (IOSCO). Looking into the future, the GSE seeks to encourage linkages with international and global markets, among others, as it moves on the path of growth [GSE, 1995]. The listing of AGC in foreign stock exchanges, namely, the London Stock Exchange, the New York Stock Exchange, the Toronto Stock Exchange, the Zimbabwe Stock Exchange and the Australian Stock Exchange has also given the GSE a whole new international dimension and stature [GSE, 1995].

Obviously, the internationalisation of the GSE presents it with challenges in its organisation and operations if it is to win the confidence of the global public. One such challenge is how the regulatory apparatus of the GSE will ensure investor protection and encourage companies and other institutions to use it to raise capital.

2.6.5 REGULATORY FRAMEWORK OF THE GHANA STOCK EXCHANGE

Two sets of legislative acts, namely, Securities Industry Law (1993), PNDCL 333, and Stock Exchange (Ghana Stock Exchange) Listing Regulation 1990, Legislative Instrument No. 1509, regulate the GSE. The Securities Industry Law (1993), PNDCL 333 provides for an apex regulatory body, the Securities Regulatory Commission (SRC), which oversees the GSE and the securities industry in Ghana as a whole. L.I. 1509 gives the Council of the GSE power to regulate the operations of the Exchange.

The SRC is a governmental body modelled along the lines of the Securities and Exchange Commission (SEC) in the United States of America. Although the law establishing the SEC was enacted in 1993, the

Commissioners were appointed only in September 1998. In the interim, the powers of the SEC were vested in the Governor of the Bank of Ghana. The functions of the SRC include maintaining surveillance over securities markets to ensure orderly, fair, and equitable dealings in securities; registering, licensing, authorising, or regulating the GSE, investment advisers, securities dealers and other market professionals; and protecting the integrity of the securities market against any abuses from the practice of insider trading. The law makes provision for the establishment of a fidelity fund which is yet to be established. The purpose of this fund, among others, is to compensate persons who suffer financial loss from any defalcation committed by any member of the GSE.

In addition to the SRC, the GSE itself regulates the market. Though enjoying governmental support in many forms, the GSE is a private initiative whose Council, which is its Board of Directors, supervises its operations. Among the duties of the Council is the prevention of frauds and malpractices. Regulations have been designed to protect the investor. These are membership regulations, listing regulations, trading and settlement regulations and rules on mergers and take-overs [Ghana Stock Exchange, 1997b]. Of major relevance to this study are the listing regulations which cover, *inter-alia*, financial reporting on which this study is focused.

2.7 FINANCIAL REPORTING ENVIRONMENT OF GHANA

2.7.1 SOURCES OF FINANCIAL REPORTING REGULATION IN GHANA: INSTITUTIONAL OVERVIEW

In general, the regulation of financial reporting in Ghana is a shared responsibility between the government and private sector institutions. The Ministry of Finance is the government institution which has overall responsibility for regulating companies in Ghana. It, however, exercises this function through the specialist departments and institutions under it, namely, Registrar General's Department, Securities and Exchange Commission, Bank of Ghana, Insurance Commission and State Enterprises Commission. The private sector institutions are the GSE and the Institute of Chartered Accountants (Ghana) (ICAG).

2.7.1.1 Registrar General's Department

The Registrar General's Department (RGD) which is headed by a Registrar General is a civil service department. The RGD is subject to the administrative controls of the Head of the Civil Service and depends on subventions from GOG. Registration of companies under the Ghana Companies Code, Act 179, is undertaken by the RGD. In addition, the RGD has to maintain statistics on types of companies in Ghana and receive annual returns including financial statements which must comply with the requirements of the Companies Code, among others. The Companies Code gives the Registrar of Companies the power to exempt a company from disclosure requirements.

2.7.1.2 Bank of Ghana

The Bank of Ghana has responsibility for supervising the banking and non-banking financial services activities in Ghana. Relying on its enabling law, Banking Law 1989, PNDCL 225, the BOG has developed financial reporting regulations which banks are expected to comply with. These regulations which make reference to the application of International Accounting Standards are additional to the financial reporting requirements of the Ghana Companies Code.

2.7.1.3 Insurance Commission

The regulator of insurance business is the Insurance Commissioner who exercises his functions under the Insurance Law 1989, PNDCL 227. The Commissioner, who heads the Insurance Commission, has power to prescribe accounting and reporting regulation for insurance companies which are additional to the requirements of the Ghana Companies Code.

2.7.1.4 State Enterprises Commission

The State Enterprises Commission has oversight responsibility for SOEs. It prescribes and monitors compliance with financial reporting and other regulations of SOEs. Financial reporting of SOEs is also influenced by the provisions in the legislative instruments establishing them.

2.7.1.5 Internal Revenue Service

The Internal Revenue Service (IRS) is the tax authority in Ghana. The IRS develops the forms and basis of taxation which have implications for the financial statement preparation. Taxes which impact on corporate financial reporting in Ghana are company tax, service tax, Pay-As-You-Earn, capital gains tax, gift tax, stamp duty and rent tax. The relevant tax laws are the Income Tax Law 1990, PNDCL 61, Capital Gains Tax Law 1991, PNDCL 267, Rent Tax 1991, PNDCL 166 and Gift Tax Law 1991, PNDCL 233.

2.7.1.6 Institute of Chartered Accountants (Ghana)

Before 1954, there was no organised accountancy association in Ghana although a few qualified accountants worked in industry, commerce and practice. The first attempt to organise professional accountants and promote professionalism in the field in Ghana is traced to 1954 when the Association of Accountants in the Gold Coast consisting mainly of qualified members was formed [Asare, 1998]. The Council of the Association of Accountants in the Gold Coast was inaugurated on 15 October 1954 with nine elected officers of which all but one were expatriates. This was not surprising since at the birth of the Association of Accountants in the Gold Coast, the profession was dominated by expatriates. In and around 1954, there existed also another body of accountants, the Society of Practising Accountants, which comprised people with accounting and auditing experience but who did not have formal training and professional qualifications.

The Association of Accountants in the Gold Coast and the Society of Practising Accountants merged in 1960 to form the ICAG following the enactment of the Chartered Accountants Act (1960), Act 170, by

Parliament. Initially, membership of the ICAG consisted of members of Association of Certified Accountants and Institute of Chartered Accountants of England and Wales (ICAEW) of the UK. This was not by accident for two reasons. As the Gold Coast was a colony of Britain, many Gold Coasters had trained in Britain. The key companies in the Gold Coast at the time were of British origin which employed expatriates from Britain who possessed the qualifications of the UK accountancy bodies.

Accountancy training and practice in Ghana have been influenced greatly by Britain, its colonial ruler. As mentioned above, many of the early professional accountants in practice and teaching were educated in Britain. Curricula in the educational institutions also followed what obtained in the UK. ICAG was placed under the supervision of the Institute of Chartered Accountants in England and Wales (ICAEW) for the first ten years of its existence during which the ICAEW conducted examinations for the ICAG. The influence of the UK on accountancy in Ghana is still felt today as membership of the ICAG reveals. As at 30 June 1998, the ICAG had 960 members of which nearly 50% hold UK accountancy qualifications. Four hundred and ninety-six members of the ICAG qualified through the local ICAG examinations while the rest are holders of overseas, mainly UK, qualifications [Asare, 1998].

The Chartered Accountants Act 1960, Act 170, gives the ICAG power to regulate accounting and reporting in Ghana. The ICAG is enjoined under Section 9(e) of Act 170:

> "to secure the maintenance of professional standards among persons who are members of the Institute and to take steps as may be necessary to acquaint such persons with the methods and practices necessary to maintain such standards"

It was in line with the above obligation that the ICAG initiated the establishment of the Ghana National Accounting Standards Board (GNASB) in 1993 to issue accounting standards for application in Ghana. GNASB is a private-sector body with membership from private business people, the accountancy profession, the legal profession, academia, and governmental agencies. Five public sector institutions are represented on the GNASB. These are National Revenue Secretariat, Audit Service, Controller and Accountant General's Department, State Enterprises Commission and the Ministry of Finance. The private sector bodies represented on GNASB are the Ghana Bar Association, University of Ghana, Ghana Stock Exchange and the ICAG.

It is surprising and perhaps a serious omission that no business interest group is represented on GNASB. The apparent over-representation of government institutions reflects the massive role of the public sector in economic development to date and also the perceived role of accounting information in macro-economic planning in Ghana. Like many private standards-setting organisations in many countries, the GNASB lacks the power to enforce its standards. The GNASB has so far adopted and issued, with very minimal modifications, twenty-eight IASC standards which are listed in Table 2.2.

The basic premises for establishing accounting standards by the GNASB are to:

> "(a) Seek direct involvement and participation of government and major user groups in the development of accounting standards.
>
> (b) Consult as appropriate with representatives of finance, commerce, industry and government, and other persons or organisations concerned with financial statements and reports.
>
> (c) Be responsive to the needs and viewpoints of the entire economic community, not just the accounting profession or any selected groups of individuals and organisations.
>
> (d) Operate in full view of the public through a "due process" system that gives interested groups or persons ample opportunity to make their views known.
>
> (e) Support the work of the International Accounting Standards Committee (IASC) and the International Federation of Accountants (IFAC) by publishing in Ghana every International Accounting Standard or Guideline approved for issue by IASC or IFAC, and to use its best endeavours to ensure that published financial statements and reports comply with such international standards or guidelines in all material respects" [ICAG, 1994].

The approach to the formulation of accounting standards by the GNASB outlined above is similar to what obtains in the UK and the US as will be seen in chapter III. The outlined approach could also lead to the incorporation of socio-economic consequences in accounting standards in Ghana. Moreover, if the GNASB gives support to the work of the IASC and the IFAC, then the standards of the two bodies will be promoted in Ghana.

2.7.1.7 Ghana Stock Exchange

The GSE requires listing companies to comply with disclosure requirements of Stock Exchange (Ghana Stock Exchange) Listing Regulation 1990, Legislative Instrument No. 1509, which encompass interim and annual reports.

2.7.2 SCOPE OF FINANCIAL REPORTING REGULATION IN GHANA

From the outline of the regulatory institutions above, it is seen that accounting and reporting regulation in Ghana is derived from the Ghana Companies Code 1963, Act 179, regulations of Bank of Ghana, Insurance Commission, and the GSE, tax laws, legislative instruments establishing SOEs and Ghana National Accounting Standards. Since this study is concerned with profit seeking non-financial companies, the discussion in this section will be limited to the Ghana Companies Code, Stock Exchange (Ghana Stock Exchange) Listing Regulation 1990, Legislative Instrument No. 1509, and GNASBSs which are applicable to such companies.

2.7.2.1 Ghana Companies Code 1963, Act 179

All companies incorporated under the Ghana Companies Code 1963, Act 179, are enjoined to prepare accounts in accordance with the provisions of the Code. The Code prescribes information which must be provided in the annual reports and accounts of companies. An annual report and accounts, as defined by the Code, includes profit and loss accounts for a period, a balance sheet as at the end of the period, notes to the accounts, a directors' report and auditor's report on the accounts. The accounting and reporting requirements of the Code have not been amended since its enactment over twenty-five years ago.

The Code requires that an annual report and accounts are filed with the Registrar of Companies, who is the enforcement authority, within twelve months after the end of a company's financial year. The Code does not, however, require the disclosure of a statement of sources and application of funds and an interim report by companies. Non-compliance with provisions of the Code regarding the content and timing of annual reports and accounts carries sanctions.

2.7.2.2 Stock Exchange (Ghana Stock Exchange) Listing Regulation 1990, Legislative Instrument No. 1509

The listing regulations of GSE prescribe criteria for the listing of securities by companies and GOG and its agencies; application procedures; contents of application and prospectus; continuing listing obligations which include financial reporting; and the overall disclosure policy of the Exchange. In addition to the requirements of the Ghana Companies Code, under the Stock Exchange (Ghana Stock Exchange) Listing Regulation 1990, Legislative Instrument No. 1509, listed companies are obliged to make further disclosures in their annual reports and accounts. These cover disclosures in the balance sheet in respect of shares and stated capital, related party transactions involving directors, information about company secretary and registrars; the disclosure of a statement of sources and application of funds and half-yearly reports to shareholders and the Exchange. The content and form that the statement of sources and application of funds should take are however, not specified. The audited accounts and reports of a company are required to be filed with the GSE within nine, instead of twelve months, as required by the Ghana Companies Code. Thus, *de jure* timeliness is improved by L.I. 1509 relative to the Ghana Companies Code.

Other features of the GSE requirements which are not required by the Ghana Companies Code are the disclosure of an interim financial statement and a preliminary financial statement. The GSE requires companies to prepare half yearly financial reports not later than six months after the end of the first half year period in the financial year. Prior to the publication of the audited financial statement, a company is required to give to the Exchange a preliminary financial statement within three months after the end of the financial year.

2.7.2.3 Ghana National Accounting Standards

Twenty-eight accounting standards were in force at the time of this study. The standards which are detailed in Table 2.2 were all developed in 1994 after the ICAG had adopted IASC standards as the basis for the formulation of accounting standards in Ghana. Since the issue of the twenty-eight GNASBSs, no additional standard has been developed. A significant feature of the GNASBs is that they are replicas of IASC standards, an issue which shall be examined further in chapter XIV. The ICAG enjoins its members to use GNASBSs for the preparation of financial statements of their clients in Ghana. However, to the best knowledge of this researcher, the extent to which GNASBSs are applied in Ghana has not been assessed yet. Consequently, as part of the objectives of this study, the degree to which GNASBSs are applied in Ghana will be considered.

Table 2.2 Ghana National Accounting Standards Board Standards[1]

No.	Title of Accounting Standard
1	Disclosure of Accounting Policies
2	Information to be Disclosed in Financial Statements
3	Revenue Recognition
4	Cash Flow Statement
5	Extraordinary Items, Fundamental Errors and Changes in Accounting Policies
6	Contingencies and Events Occurring after the Balance Sheet Date
7	Presentation of Current Assets and Current Liabilities
8	Accounting for Inventories
9	Accounting for Property, Plant and Equipment
10	Depreciation Accounting
11	Accounting for Leases
12	Accounting for Construction Contracts
13	Accounting for Research and Development Activities
14	Accounting for Income Taxes
15	Reporting Financial Information by Segments
16	Accounting for Retirement Benefits Costs
17	Accounting and reporting for Retirement Benefit Plans
18	Accounting for Government Grants and Disclosure of Government Assistance
19	Accounting for the Effects of Changes in Foreign Exchange Rates
20	Accounting for Business Combinations
21	Capitalisation of Borrowing Costs
22	Related Party Disclosures

Table 2.2 (continued) Ghana National Accounting Standards Board Standards[1]

No	Title of Accounting Standard
23	Accounting for Investments
24	Consolidated Financial Statements and Accounting for Investments in Subsidiaries
25	Accounting for Investments in Associates
26	Financial Reporting in Hyper-inflationary Economies
27	Financial Reporting of Interests in Joint Ventures
28	Disclosures in the Financial Statements of Banks and Similar Institutions

[1]Accounting standards in force on 31st December, 1997.

2.8 CONCLUSION

The return of Ghana to constitutional rule in 1992 after a series of post-independence *coup d'etats*, has created confidence in the Ghanaian economy. This is a healthy trend for the development of the stock exchange launched in November 1990. Although the GSE is a private initiative, it is being actively supported in its development by GOG. In line with the SAP agreed with the World Bank and the IMF, GOG is currently developing its capital market to attract private domestic and foreign capital for economic development. As part of the SAP, the GOG is de-emphasising state capitalism in favour of private capitalism. Many SOEs are being privatised with the major ones passing through the GSE. This has accordingly boosted the supply of securities. The stage is set for the financial deepening of Ghana's economy. The growth of the GSE is likely to be given impetus by foreign investors. The internationalisation of the

GSE makes it imperative that financial reporting practices of listed companies should be reliable, comparable, and conform with international standards. This is a challenge for the institutions charged with the regulation of the GSE and financial reporting of listed companies.

The discussion in this chapter has provided the political, social and economic context within which GSE is evolving and the implication of this for financial reporting. The data collection procedures for this study and the nature of and trends in financial reporting in Ghana need to be considered, evaluated and understood within the context of historical, legal, political, economic and other environmental factors of Ghana outlined in this chapter. The next chapter will consider the regulation and standardisation of financial reporting in a capital market context.

CHAPTER III

REGULATION AND STANDARDISATION OF FINANCIAL REPORTING IN CAPITAL MARKETS

3.1 INTRODUCTION

This chapter examines the impact of market pressures and regulation on accounting and disclosure in financial reports and develops a context within which to situate some of the findings of the study. The chapter is organised as follows: The structure and role of capital markets are outlined in the next section. This is followed by a discussion of the importance of financial reporting to investors in section 3.3. Desirable characteristics of financial reports are examined in section 3.4. Section 3.5 deals with the impact of market pressures on disclosure while section 3.6 considers the effect of accounting regulation on financial reporting. Models of financial reporting regulation are discussed in section 3.7 and standardisation of accounting in section 3.8. Concluding remarks are provided in section 3.9.

3. 2 STRUCTURE AND ROLE OF A CAPITAL MARKET

A capital market forms part of the financial system of a country and comprises the complex of institutions and mechanisms through which intermediate and long-term funds are pooled and made available to business, international organizations and governments. While there are formal and informal capital markets, this study is concerned with the former which is discussed in this section. A formal capital market comprises two components, namely, the securities market and the bank loan market. In the banking sector, financial institutions pool risk capital from surplus units (i.e. investors) and lend to deficit units (i.e. borrowers). A securities market which comprises two sections, namely, primary and secondary, provides a mechanism for valuing firms and pricing new issues of securities and facilitates secondary trading in securities, privatisation, acquisitions and mergers.

Capital markets are investment vehicles. Through capital markets, individuals with small sums of money, which by themselves cannot acquire physical facilities, are able to join hands in undertaking business ventures. The availability of a variety of instruments in capital markets affords investors the opportunity to diversify portfolios and reduce risk.

The initial sale of securities takes place in the primary market, while the transfer of securities already in existence is effected in the secondary market.

Unlike the primary market, transactions in the secondary market do not create or extinguish financial claims on borrowers. Rather, the old issues change hands through a transfer of the rights of the original lender to another, with the original borrower remaining unaffected. Thus, the secondary market provides liquidity to investors who want to dispose of their securities. While for every secondary market there must exist an associated primary market, the reverse is not necessarily true. A secondary market does not exist for non-transferable and/or non-negotiable securities. Without an active market place where securities can be bought and sold continuously, investors are likely to have reservations about the liquidity of their investments [van Agtmael, 1984].

From a societal point of view, capital markets assist in achieving a wide distribution of wealth and ownership among the citizens of a country. This is facilitated, especially, where capital markets are used as vehicles for the indigenisation and diversification of share ownership of companies and privatisation of state-owned enterprises. This is true of developed and developing countries. In Britain, the government used the London Stock Exchange to privatise British Telecommunications and British Petroleum. Stock exchanges in developing countries such as Malaysia, Brazil, Nigeria, Ghana and Kenya have been used for similar privatizations [Arowolo, 1971; UN, 1984; GSE, 1994].

3.3 IMPORTANCE OF FINANCIAL REPORTING IN CAPITAL MARKETS

3.3.1 USERS AND SOURCES OF CORPORATE INFORMATION

There are a number of stakeholders in a company which include government and its agencies, investors, brokers, financial analysts, regulators of capital markets, employees, competitors, creditors and the general public. These stakeholders require information about companies for a variety of purposes such as investment decisions, collective bargaining, lending decisions, social evaluation and government planning [Canadian Institute of Chartered Accountants, 1980; IASC, 1997]. In the context of this study, however, it is the importance of financial reporting in a capital market which is considered to be of particular relevance. Financial information is of importance to an investor for the monitoring and evaluation of stewardship of management and as an input into valuation and investment decisions. At the macro level, financial information also affects the efficiency of and resource allocation in capital markets [Singhvi, 1967; Ndubizu, 1992].

Information about listed companies can be obtained from a variety of internal and external sources. These include prospectuses, interim reports, annual reports, company newsletters and bulletins, trade journals, interviews with management, trade and business magazines, newspapers and conversation with analysts. The relative importance of the above sources of corporate information varies among different users and across countries. However, empirical evidence suggests that the annual report is an important source of corporate information [Baker and Haslem, 1973; Anderson, 1981; Day, 1986; Hines, 1982; Gray et al., 1995]. Gray et al. [1995: 45] observe that "... the annual report is a significant element in the overall disclosure process, given that it is the most widely distributed source of information on publicly held corporations."

3.3.2 AGENCY THEORY AND CORPORATE INFORMATION

The usefulness of corporate information to an investor can be understood in an agency theory context. The modern corporate entity is characterised by contractual relationships between ownership and management. Management is hired by owners (i.e. investors) to run the business on their behalf. Within the agency framework, it is theorised that professional managers may seek to maximise their own wealth to the detriment of shareholders and bondholders through the consumption of perquisites [Jensen and Meckling, 1976]. Some managerial decisions can also result in an unfavourable transfer of wealth from bondholders to shareholders [Watts and Zimmerman, 1978].

To avoid the above potential dangers, agency theory suggests a need for bonding and monitoring of, and adequate reward systems for, managers. Bondholders design restrictive debt covenants aimed at exacting desirable behaviour from managers. Such debt covenants need effective monitoring. Corporate disclosure through annual reports is one of the essential instruments for the monitoring of managerial behaviour [Watts, 1977; Watts and Zimmerman, 1978]. This is the traditional stewardship function of accounting information which is visualised as "a mechanism for conflict resolution between various stakeholders for both explicit and implied contracts, for example, among shareholders and bondholders, and even between the firm and society" [Gray et al., 1995: 46-47].

3.3.3 INFORMATION AND INVESTMENT AND VALUATION DECISIONS

Investors require accounting information for valuation and investment decisions. A major task in investment decision making is to assess the probability distribution of future returns and select those securities whose expected returns most suit the risk preference of investors [Mendelson, 1978]. Accounting information is needed to assess the timing and uncertainty of current and future streams of cash flows in valuing the firm or making other investment decisions. Information becomes important in the investment analysis and decision-making process since its availability reduces uncertainty. Business valuations are, to a large extent, also based on accounting information. Accordingly, *ceteris paribus,* adequate disclosure in corporate annual reports which encompasses the production of accurate, timely and relevant information aids the investment and business valuation processes [Stigler, 1964; Friend and Herman, 1964; Mendelson, 1978; Gray et al., 1995].

3.3.4 INFORMATION AND EFFICIENCY OF CAPITAL MARKETS

There are three dimensions of efficiency of capital markets: allocational efficiency, operational efficiency and informational efficiency all of which depend, to some extent, on the supply of timely, relevant, and reliable information. Information reduces market uncertainty which can threaten the stability of capital markets. "The reduced market uncertainty through information disclosure has two major effects on capital markets: it prevents capital market failure and encourages more investors to buy and sell securities in the capital markets" [Ndubizu, 1992: 152].

In an allocationally efficient capital market, resources are shifted from an industrial sector offering lower returns to those with higher returns. Through increased disclosure, investors are provided with appropriate values of securities for rational choices to be made. Inadequate information leads to underpricing of securities, distortion in the rates of return on assets and increases speculation. These imperfections tend to discourage investors from investing in capital markets, thereby reducing the supply of funds and restricting growth. At the macro level, the distortions result also in inefficiency in the allocation of resources.

An operationally efficient capital market offers low transactions cost to investors and fund seekers which is usually maintained through competitive pressures among market intermediaries such as brokers, financial analysts and other advisory groups [Singhvi, 1967]. Indirectly, however, operational efficiency is influenced by quality financial reporting which ensures adequate disclosure of information, among others. Greater public knowledge about companies obtained from annual reports and other disclosure sources reduces private expenses of investigation of market intermediaries, enabling such necessary services to be provided to investors and companies at relatively lower cost [Friend and Herman, 1964].

Informational efficiency refers to the speed at which information provided to the capital market gets impounded in securities prices. The Efficient Market Hypothesis (EMH) asserts that prices of securities in an efficient capital market are fair as they fully and instantaneously reflect all available relevant information [Fama, 1970; Keane, 1983]. The usefulness of annual reports in an EMH context has been questioned given that their releases are deemed untimely [Hines, 1982]. It is, however, argued that EMH is not an adequate basis to judge the usefulness of annual reports given limitations of models used to test capital market efficiency and inconclusive findings [Hines, 1982]. Even if EMH holds, annual reports will still be relevant to the extent that they are also used to monitor and control the behaviour of managers by investors and also act as media through which companies discharge their social responsibility through the various relevant disclosures to social constituencies.

3.4 DESIRABLE CHARACTERISTICS OF FINANCIAL REPORTS

It is a goal of good financial reporting to provide information in such a form as to enhance its validity. In broad terms, investors and other users require that financial reports are timely, and contain information which is consistent, accurate, simple, comparable, comprehensive and relevant to their needs [IASC, 1997]. These characteristics may be broadly classified into four main attributes, namely, reliability, comparability, adequacy and timeliness. Reliability denotes accuracy and simplicity. Comparability implies consistency as well. Adequacy requires that information is comprehensive and relevant to meets the needs of users. These four attributes are discussed next.

3.4.1 TIMELINESS OF FINANCIAL REPORTS

Information is of importance if made available to the investor in good time. Undue delay in reporting information may result in loss of its relevance. Reliability of information may be impaired if timely production of financial reports leads to the reporting of a partial aspect of a transaction. To achieve a balance between relevance and reliability, the overriding consideration should be how best to satisfy the economic decision-making needs of investors [IASC, 1997].

3.4.2 RELIABILITY OF FINANCIAL REPORTS

"To be useful, information must be reliable. Information has reliability when it is free from material error and bias and can be depended upon by users to represent faithfully that which it either purports to represent or could reasonably be expected to represent" [IASC, 1977: 49]. Reliable information must include the relevant and important dimensions of events which are essential to make these events understandable to the readers of financial statements and can be measured in terms of adequacy and/or accuracy [Jaggi, 1975]. Sound accounting principles based on technically sound accounting standards enhances reliability of financial reports, given other things to be equal.

3.4.3 ADEQUACY OF FINANCIAL REPORTS

Difficulties are encountered in defining the term 'adequacy'. Wallace [1987: 132] sums up these difficulties:

> "Adequacy as a concept is too abstract and too broad. It is too abstract because several meanings (or sub-concepts) can be derived from the concept. It is too broad because one set of operational definition may produce results which may be inconsistent with those produced by another set. The inference is that 'adequate disclosure' defies precise definition since the characteristics of disclosure (and indeed one's notion of adequacy) may change with time and place."

The above view indicates that “adequate disclosure” is a nebulous concept entangled in value judgement. However, it may be defined as the extent to which disclosure in annual reports meets the information required by users, particularly investors, on whom this study is focused, at a given time. In this sense, ‘adequacy’ refers to the standard of excellence as measured along a continuum from excellent to poor [Wallace, 1987].

Adequate disclosure should include information which enables the investor to appraise the company’s past performance and predict its future performance [Singhvi, 1967]. The total information needs of investors are the aggregate of mandatory and voluntary disclosures made by companies in annual reports and these vary from country to country and over time as evident from empirical studies. The adequacy of information in annual reports to investors can be determined quantitatively by comparing actual disclosures with ideal disclosures [Jaggi, 1975].

3.4.4 COMPARABILITY OF FINANCIAL REPORTS

To identify trends in the financial position and performance of a firm, investors need to have comparable financial statements over time. Similarly, the financial statements of different enterprises should be comparable in order to evaluate meaningfully their financial position, performance and changes in financial position relative to one another. The above means that every company should prepare its financial statement on a consistent basis so that investors can meaningfully analyse performances across time periods. Indeed, "High quality accounting and disclosure that provides comparability and transparency is an absolutely essential ingredient for well-informed capital allocation decisions and market integrity" [Sutton, 1997: 98].

Comparability is affected by specific accounting policy choices made by companies for the preparation of their financial statements and disclosure therein. Accounting policies affect the determination of income and valuation of assets and liabilities. Uniform rules for measurement and disclosure are essential in achieving comparability. However, there are practical difficulties in attaining uniformity in accounting practice due to differences in the environmental circumstances of countries and companies.

Financial reports which do not meet the above criteria are not likely to be helpful to investors. How can it be ensured that the desirable characteristics of corporate financial reports are attained? In relation to this question, two positions have emerged which are discussed in the next section. One view is that the market mechanism should be relied on for the production of appropriate accounting information by companies. A second view is that the supply of accounting information should be regulated rather than leaving it to market forces to formulate and develop.

3.5 MARKET PRESSURES ON DISCLOSURE OF INFORMATION

The libertarian approach to disclosure posits that the market mechanism will ensure adequate disclosure in annual reports by companies. Within this framework, it is perceived that incentives and pressures in the social, political and economic framework in which companies operate will induce managers to disclose adequate information about their companies [Stigler, 1964; Choi, 1973a, 1973b, 1974; Benston, 1976; Meek and Gray, 1989; Gray et al., 1995; Meek et al., 1995; Narayanaswamy, 1996]. In this regard, disclosure in annual reports is thus voluntarily induced.

The belief in the ability of the market mechanism to induce companies to disclose relevant information to investors is underscored by the possible adverse consequences that the former may suffer for a paucity of disclosure or outright failure to disclose. Narayanaswamy [1996: 145] captures comprehensively the influence and consequences of market forces in the disclosure of information as follows:

> "Financial disclosure occurs in a complex institutional setting in which regulatory forces as well as market forces influence firms' decisions to disclose information. Although the presence of disclosure regulations imposes a set of costs and benefits on the firm, in themselves, regulations do not fully determine disclosure activities. Market pressures consisting of capital market pressures, product market forces, labour market forces, and corporate control forces play a significant role in determining information disclosure...Capital market forces exert pressure on firms competing for capital to provide the set of information that will enable them raise capital on the best available terms. The greater the firm's dependence on capital, the more likely the firm

> is to disclose information...Product market forces may encourage more disclosure by competing firms if less disclosure would invite more competition and more competition is undesirable from each firm's point of view...Managerial labour market forces drive managers to signal that they will not make decisions that will reduce the value of the firm... Lastly, the market for corporate control is characterised by frequent attempts to take over the management of firms by outsiders or by a group of existing shareholders. Management resist such take-over attempts by releasing financial information that they perceive will increase the likelihood of their retaining control."

Political forces are also a potential factor in exerting pressure on management to disclose voluntary information [Hossain et al., 1994, 1995]. The fear of nationalisation, expropriation and restrictive controls not only exerts compliance with mandatory disclosure but forces management to disclose, albeit selectively, voluntary information such as environmental improvement programmes, contribution to foreign exchange earnings of a country, employee training and technology transfer and community assistance programmes. Gray and Roberts [1989] provide evidence in the UK, however, of the dominance of capital market pressures over political pressures in encouraging voluntary disclosure.

The market pressure arguments have limitations to the extent that disclosure of information is cost-benefit driven. Extensive disclosures could be detrimental to a company as it may unveil its dark side to investors, employees, competitors and governments. A gloomy picture will indicate to investors that a company is in a high risk class. In such a situation, a company could face disadvantages such as higher interest costs on capital, lower share prices, while in the extreme, providers of capital may decide not to invest in the firm at all [Meek and Gray, 1988]. Similarly, extensive disclosure can bring to the knowledge of the government some of the political, social and economic damages of a company's operations to a nation and its citizens to which the government may respond through the imposition of sanctions. For example, disclosure could present a picture which might indicate apparent or real evasion of taxes by a company which may result in investigations into its operations, employee agitation for increased remuneration and increased legal costs if information supplied is misleading to users such that they suffer losses therefrom.

Competitive disadvantage can also arise if competitors gather some sensitive information about the company making the disclosures and use it to their advantage. In the absence of legal protection, for example, an innovative company may not be able to appropriate returns on its inventions as competitors may imitate new technology or systems through disclosures made about them.

The direct costs of disclosure such as information processing costs, cost of attesting to the information, cost of information dissemination, avoidance cost in the form of lobbying resources and attendances at hearings can be high for companies which make extensive disclosures. In the light of the foregoing, it is true to say that disclosure of information may be perceived to be beneficial to companies to the extent that it improves the image of companies, promotes industrial democracy, fosters employee co-operation, helps to avoid governmental intervention, aids the monitoring of management and leads to a lower cost of capital.

The extent and magnitude of the costs and benefits of disclosure depends on the nature and position of companies and therefore varies among companies and over time. Management makes an assessment of the costs and benefits of a particular information item before deciding whether to disclose it or not. In a rational sense, management will also disclose an information item which gives a relatively greater net benefit or lesser net cost. Disclosure choices may therefore be made on the basis of their cash flow implications [Gray and Roberts, 1989].

3.6 IMPACT OF REGULATION ON FINANCIAL REPORTING

In the absence of regulation, accounting measurement and disclosure choices are at the discretion of corporate management and directors. In such a situation, diverse accounting practices are likely to emerge as companies will choose different methods with no, or little, explanation for the choices made. There may also be biases in the choice of accounting techniques leading to the production of misleading data. The obvious outcome of such a situation is likely to be that annual reports of companies will not be comparable.

In addition to the above dangers, some investors lack the capacity to comprehend and analyse data. There is also the possibility that companies may not disclose all the information deemed desirable by investors given the cost of disclosure. "Even with general acceptance of the principles of disclosure, corporate management on their own initiative have shown little evidence of a desire to provide full and fair information to their stockholders" [Singhvi, 1967: 106]. Empirical studies have established that companies do not always disclose information required by users [Buzby, 1974; Firth, 1979a; McNally, et al., 1982; Firer and Meth, 1986; Wallace, 1988a; Al-Hajeri, 1992; Nicholls and Ahmed, 1995]. In this context, market forces may lead to underproduction of information by companies as well as asymmetrical possession of the same among investors.

Information is an economic commodity whose production is guided by its demand and supply [American Accounting Association, 1977; Barefield, 1980; Bromwich, 1985]. Information is also a public good and as such explicit market failure arises in its marketing in a free-market context. As a result of free-riders, the production of information may suffer in quality and quantity due to the non-excludability feature of public goods. As nonpurchasers can have 'free lunches', producers of information will not have incentives to produce for real purchasers. Such a situation can lead to an underproduction of information by firms. Similarly, the problems of moral hazard and adverse selection lead to sub-optimal production of information. In the light of the foregoing, it is imperative to have some intervention in the market for information to redress imperfections which may exist. It needs to be mentioned, however, that mandatory disclosure may not necessarily prevent all the shortcomings of voluntary disclosures. For example, a mandatory disclosure regime may not be effective in exposing the wrong-doings of management. Moreover, some of the costs associated with voluntary disclosures may also be identified with mandatory disclosures. Whether or not regulation will exact the requisite disclosures depends on the scope and effectiveness of the regulatory mechanism.

3.7 MODELS OF FINANCIAL REPORTING REGULATION

Three main approaches to accounting regulation are available. These are private/professional, governmental/public and a mixed professional and government approach. The nature, strengths and weaknesses of each of the approaches are discussed in this section.

3. 7.1 PRIVATE REGULATION

Under private regulation of financial reporting, professional associations formulate and enforce standards for the preparation of financial reports by their members. Private regulation is seen as a process by which groups seek to promote and/or protect their interest [Posner, 1974; Stigler, 1974]. The fear of governmental intervention, however, influences private regulation to take cognisance of the public interest [Page, 1980]. The United Kingdom provides an example of private sector accounting regulation. In the UK, the Companies Act 1985 gives a broad outline of accounting requirements within which the accounting profession, working through the Accounting Standards Board (ASB), develops appropriate financial reporting standards.

Private regulation draws on the expert knowledge of practitioners. This makes it possible for standards to incorporate appropriate technicalities, the application of which, *ceteris paribus,* leads to the production of quality financial reports. In addition, professional regulation offers greater scope for flexibility and adaptability. Professional standards are relatively easy to formulate and amend. A major drawback with private regulation is its lack of power to enforce compliance. Private regulators depend on members of the profession to use their "best endeavours" to promote compliance with accounting standards. Moreover, the government can override standards developed by private regulators. For example, the report of the Sandilands

Committee, a committee on inflation accounting appointed by the UK government in 1975, was accepted to replace proposals on the subject offered by the then Accounting Standards Committee of the professional accounting bodies in the UK.

3.7.2 PUBLIC REGULATION

Under public regulation, the government or its agency promulgates and enforces financial reporting standards, which become part of the statutes of a country and are subject to the official judicial process. Public regulation of financial reporting is based on the need to protect the public interest by addressing inefficiencies in the market for the provision of accounting information [Stigler, 1964,1971, 1974]. The government is perceived to be the most effective and legitimate authority rather than any private body to rectify "palpable and remediable inefficiencies of inequities in the operation of the free market" [Posner, 1974: 366].

Public regulation commands the requisite authority to extend regulation to areas which private regulation would normally ignore. Enforcement of rules and laws is relatively more successful under public regulation through the use of judicial power of the state. Nevertheless, public regulation also has shortcomings. It creates a danger of straight-jacketing the financial reporting environment by a strict regulatory regime which might easily lead to insensitive or heavy-handed over-regulation. Too much emphasis on legal regulation can lead to a mindless concern with rules rather than the intended purpose. A situation may arise where the laws or rules are followed more in the letter than in the spirit [Borrie, 1987]. Public regulation can also lead to an inflexible and unadaptable regulatory mechanism for financial reporting as the statutory and parliamentary processes are slow in the enactment, amendment and interpretation of laws. As a further drawback, statutory regulators may not have the requisite expertise and experience to deal with technical accounting issues.

3.7.3 A MIXED PRIVATE AND PUBLIC REGULATION

A mixed private and public regulation regime (hereafter referred to as "hybrid regulation") provides a framework in which the government develops a partnership with private sector professionals to regulate financial reporting. In this context, public and private regulatory approaches are seen as complementary rather than opposed to each other or being mutually exclusive [OECD, 1980]. In theory, though, the government wields the ultimate power in a hybrid regulatory framework.

The hybrid regulation approach attempts to capture the separate advantages of private and public regulatory models. The presumption is that the demerits of private regulation are countered by the existence of public regulation and vice-versa. Canada and the US afford examples of the private and public sector partnership in the development of accounting standards. In Canada, the profession has power to develop accounting standards which are given legal backing by the government [CICA, 1980]. In the US, the Securities and Exchange Commission (SEC) is a public body charged with the regulation of the US securities market under the Securities Exchange Act of 1934. The SEC, however, has delegated the power for the regulation of corporate reporting by listed companies to the Financial Accounting Standards Board (FASB) which is a private-sector body. The SEC, nevertheless, can override the FASB's decisions, as happened in 1978 with respect to a proposed standard on research and development for oil companies.

The trend in accounting standard-setting in practice reveals a framework which combines private and public approaches. From a survey conducted by the OECD [1980] it was found that legal requirements and professional rules and standards based on self-regulation by the accounting profession, business and interested groups co-exist in many countries. In adopting the hybrid model, the emphasis on private or public efforts needs to vary from country to country in response to differences in their cultural, social and political circumstances.

3.7.4 CHOICE OF A REGULATORY MODEL

The choice of a model for financial reporting regulation should take cognisance not only of the overall cultural and political conditions in a country but also the availability of regulatory resources and experience in a country. The extent to which self-regulation is seen as complementary or an alternative to public regulation, the costs and difficulties involved in devising and enforcing standards, the existence of a social norm which indicates the preference or non-preference for persuasion or agreement, the willingness or unwillingness to legislate, the need for flexibility and high standards and international developments are some of the specific influences on the regulatory choice problem [Page 1980]. The dynamics of social systems require that once chosen, a constant review of the regulatory model is undertaken to establish its soundness. Such a review could help to ensure that the regulatory mechanism is made responsive to changing environmental conditions.

3.8 ACCOUNTING STANDARDS

Corporate financial reporting has a number of facets involving the production, attestation and dissemination of information which are influenced by human actors and institutions in the reporting framework. Regulation of financial reporting may, therefore, encompass all the facets of the reporting framework. This may be visualised to include, *inter alia*, the setting of accounting and auditing standards, the disciplining of professionals for errant performance and the prescribing of quality controls and ethical standards for a private profession [Elliot and Schuetze, 1980;

Thompson Jr., 1980]. For the purpose of this study, however, consideration is given to only accounting standards.

3.8.1 NATURE OF ACCOUNTING STANDARDS

Accounting standards are codified rules and practices which guide financial reporting. They are a set of statements covering procedural, disclosure or measurement issues to be dealt with in the production of corporate financial reports [Benston, 1980; Wallace, 1990b, Chamisa, 1994]. Procedural standards are concerned with systems for recording events and transactions by an enterprise. Measurement standards prescribe rules for the calculation of income and valuation of assets and liabilities. Disclosure standards indicate the manner or form of items of information that should be included in financial statements. Accounting standards range from those intended to achieve strict uniformity to those capable of more flexible interpretation. Standards may be derived from statutory authority or may be effectively advisory and may have domestic and/or international relevance.

3.8.2 BENEFITS AND LIMITATIONS OF ACCOUNTING STANDARDS

Lack of comparable information can diminish the effectiveness of investing and lending decisions that involve evaluating alternative opportunities. In addition, incomplete, irrelevant and unreliable information is unhelpful to investment analysis and business valuation decisions in the international as well as domestic capital markets. Such a state increases the transaction costs of investors who incur greater cost to acquire information. Accounting standards are one of the means of ensuring comparable, relevant, complete and reliable information to investors and thereby reducing their transactions cost. Timely, adequate and reliable information also promotes investor confidence in and growth of capital markets. Sutton [1997: 100] has noted:

> "...the success of the U.S. capital markets is due, in a large measure, to the high quality of accounting and disclosure standards used by U.S. public companies. Those standards give investors confidence in the integrity of financial reporting in the U.S.- an essential ingredient that we cannot afford to compromise".

Accounting standards provide a basis for a meaningful assessment of operational results and state of affairs. In addition, accounting standards are used to train accounting personnel of a company and facilitate the preparation of financial statements. The clarity and transparency which accounting standards give to financial statements improve the confidence of investors in a company which also may positively impact on share prices.

A potential danger of accounting standards is that they may be or become too rigid and have too many rules and details. Rigidity, it is argued, can inhibit innovation or activity [Elliot and Schuetze, 1980]. Operating with standards which appear to be rigid rules will not only stifle initiative but can be costly to comply with and may not be relevant to the peculiar circumstances of individual companies thereby resulting in misleading financial reports. The foregoing is suggestive that standards should have some flexibility. Nevertheless, too much flexibility also undermines comparability. Comparability can be obtained, however, through increased disclosure.

3.8.3 PROBLEMS WITH ACCOUNTING STANDARDS-SETTING

Accounting standards have socio-economic consequences which must be recognised in their formulation [Solomons, 1978; Zeff, 1978]. Indeed, governments tend to require that accounting standards incorporate socio-economic consequences especially where these consequences are thought to be significant and might impinge on economic and social policies being pursued by government.

In view of the possible consequences of accounting standards, interested parties try to lobby the process to get the regulators to act in a way that will not be detrimental to them [Kenny and Larson, 1993, 1995]. Even where professional accountants formulate standards, other user groups including government who are likely to be affected by the standards take interest in the process to ensure that their views are recognised. Generally, therefore, the accounting standards-setting process works on consensus and compromises leading to flexibility in standards through the provision of options. Evidence is provided by Struyven [1995] of how member countries of the EU had to compromise on a number of issues in the development of the Insurance Accounts Directive (IAD). In the end, the IAD has offered many options reflecting virtually all of the peculiarities and practices of EU countries. It needs to be recognised, however, that compromises and accommodation of economic consequences of accounting standards do not necessarily guarantee that quality standards are produced [Catlett, 1980].

To realise the benefits of accounting standards, however, there is the need to ensure that the mechanism for their formulation and implementation are sound. This requires that the standard-setting process has enough credibility. In addition, standards should take account of their socio-economic consequences and reflect also the peculiarities of firms and countries in which they are to be used. Credibility of accounting standards depends on the credibility of the standards-setting process. Where powerful or dominant interest groups are able to capture the process to satisfy their interests, standards so developed may not be useful enough to achieve the intended objectives.

Lobbying pressures from interest groups and individuals have become part of the processes for the formulation of accounting standards. Kenny and Larson [1993, 1995] provide evidence that national professional accountancy bodies, MNCs and other constituents lobby the IASC, for example, in the formulation of standards. Inviting the public to comment on proposed standards and perhaps the adoption of "due process" as obtained in US, and as has been introduced to some extent by the IASC, may help mitigate this problem. Generally, however, the model of regulation adopted and its workings in a country determines the standard-setting process and its credibility.

3.9 CONCLUSION

Financial reporting is of importance to investors in capital markets as it provides information to aid investment and valuation decisions about listed companies and for the monitoring and evaluation of the performance and actions of management. In this regard, it is contended that there is the need for reliable, timely, adequate, and comparable information which is fostered through accounting standards and voluntary disclosure in capital markets, the GSE not being an exception.

The totality of corporate disclosure in annual report is derived from mandatory and voluntary disclosure. Mandatory disclosure is influenced by the scope and effectiveness of the regulatory mechanism. Voluntary disclosure, however, is the outcome of capital, labour and product market and political and social pressures. The need for accounting standards, and indeed the regulation of financial reporting in general, is justified to the extent that the market fails to exact desirable accounting and disclosure practices from companies. Accounting standards may be formulated in the private sector or the public sector or through the combination of private and public sector initiatives depending on the cultural circumstances and availability of professional and economic resources in a country. It is imperative that the socio-economic consequences of accounting standards are recognised in their formulation and in this regard the adoption of an approach such as the "due process" may prove useful.

From the foregoing discussion, it is submitted that it will be useful to investigate extant financial reporting practices of companies in Ghana to establish their comparability and adequacy for appropriate policy measures to be taken, if need be. Such a study should encompass an evaluation of compliance with accounting regulations and effectiveness of the regulatory mechanism, comparability of accounting measurement methods and the extent of disclosure and factors which impinge on them. The next chapter will focus on international harmonization which may also impact on financial reporting in Ghana.

CHAPTER IV

INTERNATIONAL HARMONISATION OF FINANCIAL REPORTING IN CAPITAL MARKETS

4.1 INTRODUCTION

A variety of factors influence the development of financial reporting practices worldwide. These include legislation, political systems, capital market development, culture, education, international influences of multinational corporations, multilateral lending institutions and the IASC, forms of business enterprises, business innovations and historical influences [Jaggi, 1975; Briston, 1978; Samuels and Oliga, 1982; Choi and Mueller, 1992; Nobes and Parker, 1995; Radebaugh and Gray, 1997; Nobes 1998a]. The factors which shape the development of financial reporting tend to vary from country to country and over time. As a result, diversity in accounting systems prevails worldwide, which undermines the comparability of financial reports internationally. It is against this background that the harmonisation of financial reporting internationally becomes relevant.

This chapter discusses international harmonisation of financial reporting from a capital market perspective. The aims of this discussion are two-fold. The first is to examine the impact and relevance of international influences on domestic financial reporting. The second is to develop and provide a framework for analysing and understanding some aspects of the findings of this study. The rest of the discussion proceeds as follows: In section 4.2, harmonisation is defined while paradigms of harmonisation are considered in section 4.3. The benefits of harmonisation and the obstacles to harmonisation are outlined in section 4.4 and section 4.5 respectively. The efforts of international bodies, namely, the IASC, UN, OECD and EU in promoting harmonisation of financial reporting from global and regional perspectives are presented in section 4.6. Section 4.7 concludes the chapter.

4.2 HARMONISATION DEFINED

Standardisation and harmonisation are often confused and used interchangeably. Standardisation is the reduction of available alternative treatments of accounting transactions and events while at the same time retaining a high degree of flexibility. Harmonisation involves the reconciliation of different accounting and financial reporting systems by fitting them into broad classifications so that form becomes more standard while content retains significant differences. Emenyonu [1993: 35] distinguishes between standardisation and harmonisation as follows:

> At first glance, the two terms might appear dichotomous but this apparent dichotomy is only superficial... both are processes, the main difference being that whereas harmonisation aims at moving financial statements away from total diversity, standardisation attempts to move them towards uniformity.

Harmonisation, therefore, implies a more flexible approach compared to standardisation, with the latter resulting ultimately in uniformity. [Radebaugh and Gray, 1997]. A state of uniformity is attained when only one accounting method is used by all companies in a country or across countries either in response to market forces or through regulation. Uniformity enhances meaningful comparability to the extent that the underlying circumstances and environments of companies are similar. In view of the diversity of environmental conditions of countries, harmonisation, rather than uniformity of accounting practices, at the international level is desirable.

Harmonisation of accounting encompasses not only principles pertaining to the measurement of income, assets and liabilities but also disclosure issues of financial reporting [van der Tas, 1988; Comiskey and Mulford, 1991]. Disclosure harmonisation involves making disclosure by companies comparable. Measurement harmonisation focuses on comparability of accounting measurement methods used in preparing financial statements.

Harmonisation of accounting can also be *de jure* or *de facto* in space and in time [Tay and Parker, 1990]. *De jure* or formal harmonisation refers to harmony of accounting regulations which may be contained in the law and/or professional accounting standards while *de facto* or material harmonisation is concerned with actual practices of companies. It is possible to have a high degree of harmonisation in company practices (i.e. *de facto* harmonisation) which may not be in line with regulations or laws (i.e. *de jure* harmonisation) and the latter can take place without the former. Indeed, formal harmonisation is not an end in itself, but a means of accomplishing material harmonisation [van der Tas, 1988].

Harmonisation of financial reporting can be viewed and measured from national and international perspectives. National harmonisation focuses on acceptable practices within a country and how companies within that country use or apply those practices [Murphy, 1996]. At the international level, harmonisation of accounting is a process of making diverse accounting principles and practices from different countries more comparable [Nobes and Parker, 1995; Radebaugh and Gray, 1997].

4.3 INTERNATIONAL HARMONISATION PARADIGMS

Harmonisation may be achieved as a deliberate policy choice or may be spontaneous, being the outcome of the interplay of a variety of environmental conditions such as existing laws, auditors' influence, company behaviour, historical events, international trade, capital market development and a host of other influences [Doupnik and Taylor, 1985; van der Tas, 1988; Purvis et al., 1991; Al-Basteki, 1995]. Market pressures can be relied upon to promote international harmonisation of accounting [Haller, 1995; Roberts et al., 1996]. However, in view of market failure, it is rational to pursue harmonisation as a deliberate policy choice. At the international level, Saudagaran and Diga [1997a] have identified three paradigms of harmonisation, namely, bilateral, regional and global. A fourth paradigm, cluster approach, has been advanced [Choi, 1981; Rivera, 1989; Adhikari and Tondkar, 1992].

The bilateral model involves harmonisation of accounting practices between two countries. A country may decide to align its financial reporting regulatory practices with that of another country. This may involve the full adoption of the regulation of one country into another country or a mutual recognition of each country's financial reporting by the other. A reciprocal agreement between the US and Canada to recognise financial reports of companies prepared under the regulation of each country for listing purposes is an example of the bilateral approach to international accounting harmonisation. For this model to succeed, the two countries involved should, in many respects, have common reporting standards and also close trade and investment links. A bilateral agreement can be faster and easier to implement than a multilateral agreement involving many countries. However, this can be problematic in having any significant global impact. This is so because as more and more separate bilateral agreements are entered into, different requirements under the various agreements will be perpetuated, which will increase, rather than, reduce accounting disparities.

A regional paradigm of international accounting harmonisation perceives harmonisation in the context of countries which are geographically proximate. This involves alignment of financial reporting regulations and practices to foster comparability between countries in a region. The European Union and the ASEAN regions provide examples of the regional harmonisation model. To promote regional accounting harmonisation, a number of conditions must be present. These include an articulated rationale and a set of values for harmonisation which must be clear and acceptable to the countries involved, a high level of economic integration in the region, existence of a political infrastructure to administer the harmonisation process within a broad policy framework and the economic clout to develop a regional vision without fear of being marginalised in the global arena [Ndzingbe, 1990; Saudagaran and Diga, 1997a].

A global approach to international accounting harmonisation views harmonisation on a worldwide basis. It envisions the absence of national boundaries such that accounting information is comparable across countries and readily available to international users. This is the goal being pursued by the IASC, the UN and the OECD. Naturally, the existence of different systems of accounting worldwide and the desire by countries to maintain their accounting identity, coupled with ideological preferences, create formidable barriers to the achievement of global harmonisation of accounting.

A cluster approach to international harmonisation provides that countries with similar environmental characteristics are grouped together and similar accounting standards applied to them. Choi [1981], Rivera [1989], and Adhikari and Tondkar [1992] argue that a cluster approach of harmonising accounting standards among countries with similar environmental profiles, may be more practical than attempts at global harmonisation. In this vein, a classification approach based on the level of development of equity markets is seen as appropriate in implementing a cluster-based harmonisation approach with regard to stock exchange disclosure requirements. While there is some merit in the cluster model, its implementation can be problematic. This is so because different clusters arise as a function of factors on which classifications are based [Mueller, 1967; Nobes 1998a] and also whether the classifications focus on disclosure or measurement practices [Frank, 1979; Nair and Frank, 1980].

The models of harmonisation discussed above are not necessarily linear in relationship. They tend to have cross-cutting influence and do impact on and are also affected by domestic harmonisation processes. Indeed, it is often debated whether regional harmonisation, for example, may not even hinder global harmonisation efforts.

4.4 BENEFITS OF INTERNATIONAL HARMONISATION

The internationalisation of trade, business and capital markets has increased in recent years, being a phenomenon which has come to stay. The needs of participants in international markets for financial and other information have transcended national borders. Not only do political and economic agents need to understand the financial statements of companies in different countries, but they also must be able to make intelligent comparisons between and among them in order to make rational choices. However, heterogeneity in accounting and financial reporting worldwide hinders comparisons and increases the transaction costs of users.

As emphasised extensively in the literature, international harmonisation of accounting and reporting seeks to enhance the understandability and comparability of financial statements to users and reduce their transaction costs [Rivera, 1989; Han, 1994; Most, 1994; Nobes and Parker, 1995; Glaum and Mandler, 1996; Roberts et al., 1996]. It has been asserted that capital markets serve as an impetus for a process leading to the harmonisation of financial reporting. Sutton [1997: 98] has noted:

> "As capital markets around the world continue to develop, companies seeking capital will look for the best possible terms, and investors providing capital will seek to compare investment opportunities. As these trends continue, the call for common financial reporting and disclosure can be expected to become more intense."

In addition to investors and companies, international harmonisation of accounting is beneficial also to regulatory agencies such as accountancy institutes, securities commissions and national governments.

4.4.1 BENEFITS TO INVESTORS

International portfolio diversification presents the investor with tremendous opportunities to manage risk and enhance returns. International investors need to compare investment opportunities in different countries in order to make rational choices in diversifying their portfolios. The process of international portfolio choices requires that investors have adequate, reliable and comparable financial statements across borders. This process is significantly facilitated by financial statements which are drawn up on a consistent and uniform basis [Rivera, 1989; Fleming, 1991; Chandler, 1992; Han, 1994; Roberts et al., 1996; Radebaugh and Gray, 1997; Saudagaran and Diga, 1997a].

Differences in financial reporting practices across borders increase the transactions costs of investors through increased outlay in obtaining an understanding of the meaning and veracity of the reports, either by engaging the services of experts or spending a considerable amount of effort in making analysis. The cost of translating or the eventual inability to translate financial statements can be seen as equivalent to a tax on capital which reduces gross and net foreign investment [Roberts et al., 1996]. Thus, differences in financial reporting across borders constitute an important source of capital segmentation which could impede international capital flows, economic development and efficient allocation of resources [Taylor et al., 1986; Ndubizu, 1992; Most, 1994; Roberts et al., 1996].

It has been argued that the adoption of international standards by companies will reduce or possibly avoid the costs identified above. An opposing view is that accounting diversity has not been a barrier, although it may be a disincentive to cross-border investments [Goeltz, 1991; Roach, 1996]. Roach [1996] has noted that the rapid growth in capital markets, particularly portfolio investments, in the last few years has occurred without Global GAAP or uniform accounting standards. He admits, however, that some considerable efforts are expended in analysing financial statements of companies from different countries. It is this cost of time and money which harmonisation seeks to minimise or avoid altogether.

4.4.2 BENEFITS TO LISTED COMPANIES

The increasing internationalisation of capital markets provides opportunities for multinational corporations (MNCs) to raise capital from overseas at competitive costs [Chandler, 1992]. A major problem faced by MNCs in seeking listing in overseas capital markets is the need to comply with regulations of such foreign markets which may imply modifications or sometimes restatement of financial statements at additional cost [Most, 1994; Radebaugh and Gray, 1997]. Most [1994:6] has observed that "...differences in accounting impose excess costs when securities are issued, increase outlays on accounting services, and result in higher than necessary audit fees."

In cross-national settings, MNCs are also faced with the difficulty of preparing accounts to meet the requirements or practices in each country. This problem is compounded further by the need to prepare consolidated financial statements for the parent company from the set of accounts prepared under different rules or principles applicable in each subsidiary's country. There is also the problem of preparing comparable information for the appraisal of performance of subsidiaries in different countries while international mobility of staff is also hindered by varied accounting systems in host countries [Nobes and Parker, 1995]. Harmonisation may help to avoid costs and efforts in extensive redrafting and interpretation of accounts from different countries and therefore becomes an effective means of reducing overall cost of compliance with different international accounting standards.

4.4.3 BENEFITS TO REGULATORS

Regulators of financial reporting in capital markets include professional accounting institutes or other bodies which set standards, governments, and securities commissions. The creative adoption of international accounting standards by a country will help it to reduce the efforts and costs involved in developing its own standards [Ndzingbe, 1990; Nobes and Parker, 1995]. Professional institutes, especially in many ECMs or developing countries, which lack skills needed to formulate accounting standards, may benefit substantially by adopting or using international standards as the basis for developing domestic standards and avoiding duplication of efforts and cost. The supervisory and monitoring roles of the IOSCO and other national securities regulatory commissions could be facilitated through financial reporting systems based on international standards which would not only lead to comparable but also reliable and adequate financial statements across borders.

4.5 OBSTACLES TO INTERNATIONAL HARMONISATION

The GAAP used in any country can only be understood in the context of factors such as tax policy, fiscal policy, managerial systems, culture and regulatory objectives [Longstreth, 1994]. Against this background, therefore, quantitative reconciliation of accounting data aimed at comparability may, indeed, be illusory. Nobes and Parker [1995] point out that the massive differences in accounting practices among countries which exist presently are one of the major obstacles to international harmonisation. To abandon the harmonisation of accounting on the basis of the diversity of accounting systems, however, is not only defeatist as observed by Hayes [1980] but also tends to ignore the underlying rationale for the venture.

IASC standards are seen as US and UK 'accounting imperialism' and are detested by some countries [Samuels and Oliga, 1982; Hove, 1986, 1990; Briston, 1978, 1984; Ndzingbe, 1990; Samuels, 1990; Haller, 1995; Hoarau, 1995]. In a bid to maintain their sovereignties, some countries, accountants and companies are unwilling to change their accounting systems. To deal with this problem, it is advisable for countries to perceive accounting harmonisation as a beneficial supplement to national regulations and practices, in circumstances where diversity in practices would otherwise create uncertainties, inefficiencies and misunderstandings rather than as a subversion of a national accounting system to some amorphous universal dictum [Wyatt, 1992]. This requires co-operation among international and national accounting standard-setting bodies. As noted by Hegarty [1997]:

> "Strong national standard setters will remain an essential element in any system to set international standards, but the

> protection of the global public interest requires a global experience. National regulation is not doomed to disappear, but national regulators are compelled to co-operate."

The accountancy profession has a role to play in the promotion of international harmonisation of accounting. Bodies such as the IASC, ASEAN Federation of Accountants [AFA] and others seek to work through the national professional accounting bodies of their members to promote acceptance of and compliance with international standards. To this end, strong accountancy professions are needed in countries to ensure support for the harmonisation process. International harmonisation will be hampered inasmuch as accountancy professions do not exist or existing ones are weak in many countries [Ndzingbe, 1990; Nobes and Parker, 1995]. This problem is compounded further by the lack of power of enforcement of accounting standards issued by voluntary professional associations. As a way of dealing with this problem, it is suggested that international bodies pursuing harmonisation should establish solid relationships with national standard-setters, national professional bodies and national governmental agencies to promote acceptance of international standards through co-operation.

4.6 EFFORTS AT INTERNATIONAL HARMONISATION

International harmonisation of accounting has been a concern for professional associations and governmental bodies. Intergovernmental bodies involved in harmonisation are the UN, the OECD, the EU and the African Accounting Council (AAC). Professional associations which have harmonisation on their agenda are the Federation des Experts Comptables Europeens (FEE), Confederation of Asian and Pacific Accountants (CAPA), ASEAN Federation of Accountants (AFA), Inter-American Accounting Association (IAAA), Federation of Accountants in the SADCC Region (FASR), and Association of Accounting Bodies in West Africa (ABWA). By far the most important bodies engaged in the international harmonisation of accounting have been the IASC, UN, OECD and EC whose respective efforts are discussed next.

4.6.1 INTERNATIONAL ACCOUNTING STANDARDS COMMITTEE

The first international accounting congress was held in St. Louis, Missouri in the United States of America in 1904. It was at this congress that the need for greater harmonisation of professional accounting practices globally was emphasised. By the 1950s, there were heightened calls for greater efforts towards international harmonisation of accounting [Chandler, 1992]. A positive move was, however, made in 1966 when the Accountants International Study Group (AISG) was formed by Canada, UK and the USA with the aim of instituting comparative studies into accounting thought and practice in the three countries [Gokarn, 1984; Rivera, 1989].

An attempt at a more embracing approach to international harmonisation, however, had to wait till the 10th International Congress held in Sydney, Australia, in 1972. It was at this forum that an agenda for achieving progress in the harmonisation of accounting internationally was adopted and plans were laid for the establishment of an organisation to develop accounting standards for a worldwide audience of accountants. After the Congress held in Sydney in 1972, the three members of the AISG invited accountancy bodies in six other countries, namely, Australia, France, Germany, Japan, Mexico, and the Netherlands to join them to establish the International Accounting Standards Committee (IASC) [Gokarn, 1984]. In 1973, the IASC was established by sixteen accountancy bodies from the nine countries.

Membership of the IASC consists of all accountancy bodies which are members of the IFAC and other organizations interested in financial reporting. Some of these organisations are the International Co-ordinating Committee of Financial Analysts' Associations, the Federation of Swiss Industrial Holding Companies and the International Association of Financial Executives Institutes. Membership of the IASC has grown considerably over the years reaching 133 member organizations, 5 associate members and 4 affiliate members in 103 countries as at 28 February, 1999 [IASC, 1999].

The IASC [1997: 17] has two main objectives which are:

> "(i) to formulate and publish in the public interest accounting standards to be observed in the presentation of financial statements and to promote their worldwide acceptance and observance; and
> (ii) to work generally for the improvement and harmonisation of regulations, accounting standards and procedures relating to the presentation of financial statements."

The business of the IASC is conducted by a Board comprising representatives of accountancy bodies in thirteen countries (or combinations of countries) and up to four other organizations interested in financial reporting. The representatives of the accountancy bodies are appointed by the IFAC. Representatives of the IOSCO, EC and FASB in the US attend the meetings of IASC Board as observers.

Under Mutual Commitments entered into by the IFAC and IASC in 1983, the former has agreed to grant full authority and complete autonomy in the setting of IASs to the latter. Instead, the IFAC is concentrating on the regulation of international auditing practice. Members of the IFAC have agreed to support the objectives of the IASC by undertaking the following obligations:

> "to support the work of IASC by publishing in their respective countries every International Accounting Standard approved for issue by the Board of IASC and by using their best endeavours:

(i) to ensure that published financial statements comply with International Accounting Standards in all material respects and disclose the fact of such compliance;

(ii) to persuade governments and standard-setting bodies that published financial statements should comply with International Accounting Standards in all material respects;

(iii) to persuade authorities controlling securities markets and the industrial and business community that published financial statements should comply with International Accounting Standards in all material respects and disclose the fact of such compliance;

(iv) to ensure that auditors satisfy themselves that the financial statements comply with International Accounting Standards in all material respects;

(v) to foster acceptance and observance of International Accounting Standards internationally" [IASC, 1997: 30].

The IASC has since 1981 established an international Consultative Group which discusses with the Board the technical issues in projects being undertaken. This group, which plays an important part in the IASC's due process for the setting of and gaining acceptance for international accounting standards, includes representatives of stock exchanges, securities regulators, international users and preparers of financial statements, development agencies and intergovernmental organizations. Some of the current and past members of the Consultative Group have been the FIBV, IFC, International Trade Union Confederations (ICFTU), World Council of Labour (WCL), International Bar Association (IBA), International Chamber of Commerce (ICC), International Valuation

Standards Committee (IVSC), the World Bank, International Banking Association, and the International Association for Accounting Education and Research (IAAER). The OECD and United Nations Centre on Transnational Corporations and Investment attend the meetings of the Consultative Group as observers.

The IASC's due process involves consultation with the Consultative Group, IASC's Member Bodies, national standard setting bodies, and other interested groups and individuals on a worldwide basis. Comments of these groups are received on subjects for consideration. The due process ensures that IASs are of high quality reflecting appropriate accounting practices within the relevant context and that they are acceptable to the users and preparers of financial statements. After a subject has passed through the due process, it can only be approved as a standard with the approval of at least three-quarters of the members of the Board.

In line with its objectives, the IASC has issued 39 IASs listed in Table 4.1 on topics which affect business enterprises. In addition, a conceptual framework, Framework for the Preparation and Presentation of Financial Statements, has been developed. There is presently one Exposure Draft, E63, 'Events After the Balance Sheet Date', intended to revise IAS 10 for which 15 February 1999 is the deadline for receipt of comments. The trend in the issue of IASs suggests that the IASC tries to be responsive to the business environment by revising standards when the need arises.

Table 4.1: International Accounting Standards and Exposure Drafts as at 28 February 1999[1]

No.	Title of Accounting Standard
IAS 1	Presentation of Financial Statements (1.7.98) (this replaced IAS 1, Disclosure of Accounting Policies, which remained in effect until 1.7.98)
IAS 2	Inventories (1.1.76)
IAS 3	No longer effective. Replaced by IAS 27.
IAS 4	Depreciation (1.1.77)
IAS 5	Information to be Disclosed in Financial Statements (1.1.77) (superseded by IAS 1 (revised 1997) (effective 1.7.98)
IAS 6	No longer effective. Replaced by IAS 15.
IAS 7	Cash Flow Statements (revised 1992) (1.7.79)
IAS 8	Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies (1.7.79)
IAS 9	Research and Development Costs (1.1.80) (will be superseded by IAS 38 effective 1.7.99)
IAS 10	Contingencies and Events Occurring After the Balance Sheet Date (1.1.80) (will be partly superseded by IAS 37 effective 1.7.99)
IAS 11	Construction Contracts (1.1.80)
IAS 12	Income Taxes (1.1.98) (this replaced IAS 12, Accounting for Taxes on Income, which remained in effect until 1.1.98)
IAS 13	Presentation of Current Assets and Current Liabilities (1.1.81) (superseded by IAS 1 effective 1.1.98)
IAS 14	Segment Reporting (1.7.98) (this replaced IAS 14, Reporting Financial Information by Segment, which remained in effect until 1.7.98)
IAS 15	Information Reflecting the Effects of Changing Prices (1.1.83)

Table 4.1 (continued): International Accounting Standards and Exposure Drafts as at February 1999[1]

No.	Title of Accounting Standard
IAS 16	Property, Plant and Equipment (1.1.83)
IAS 17	Accounting for Leases (1.1.84) (will be superseded by IAS 17 (revised 1997), Leases, effective 1.1.99)
IAS 18	Revenue (1.1.84)
IAS 19	Employee Benefits (1.1.85) (will be superseded by IAS 19 (revised 1998) effective 1.1.99)
IAS 20	Accounting for Government Grants and Disclosure of Government Assistance (1.1.84)
IAS 21	The Effects of Changes in Foreign Exchange Rates (1.1.85)
IAS 22	Business Combinations (will be superseded by IAS 22 (revised 1998) effective 1.7.99)
IAS 23	Borrowing Costs (1.1.86)
IAS 24	Related Party Disclosures (1.1.86)
IAS 25	Accounting for Investments (1.1.87)
IAS 26	Accounting and Reporting by Retirement Benefit Plans (1.1.88)
IAS 27	Accounting for Investments in Associates (1.1.90)
IAS 28	Consolidated Financial Statements and Accounting for Investments in Subsidiaries (1.1.90)
IAS 29	Financial Reporting in Hyperinflationary Economies (1.1.90)
IAS 30	Disclosures in the Financial Statements of Banks and Similar Financial Institutions (1.1.91)
IAS 31	Financial Reporting of Interests in Joint Ventures (1.2.92)
IAS 32	Financial Instruments: Disclosures and Presentation (1.1.96)
IAS 33	Earnings Per Share (1.1.98)
IAS 34	Interim Financial Reporting (1.1.99)
IAS 35	Discontinuing Operations (1.1.99)

Table 4.1 (continued): International Accounting Standards and Exposure Drafts as at February 1999[1]

No.	Title of Accounting Standard
IAS 36	Impairment of Assets (1.7.99)
IAS 37	Provisions, Contingent Liabilities and Contingent Assets (1.7.99)
IAS 38	Intangible Assets (1.7.99)
IAS 39	Financial Instruments: Recognition and Measurement (1.1.01)

[1] Effective dates are indicated in parenthesis.
Source: web: http://www.iasc.org.uk [1999].

A major and important project recently undertaken by the IASC in response to the IOSCO's concern and desire to use International Accounting Standards is that which has dealt with the *Comparability of Financial Statements* (ED32) issued in December 1989. The aim of ED 32 was to eliminate most of the free choices of or options in accounting treatment permitted under International Accounting Standards [IASC, 1990]. This project resulted in the issue, from 1 January 1995, of IASs which have reduced the accounting methods used for fifteen out of twenty-four measurement issues. Given that there is usually no one answer to many accounting issues and much diversity exists in environmental conditions of countries thereby requiring different accounting responses, the desirability of the drive towards uniformity in accounting treatments involved in the *Comparability Project* is questionable. Alternatively, comprehensive disclosures can lead to enhanced comparability of financial statements.

In 1993, the IOSCO decided on a set of accounting standards, described as 'core standards', that would constitute a comprehensive body of principles for enterprises undertaking crossborder offerings and listings [IASC, 1999]. These consisted of 40 standards detailed in table 4.2.

Table 4.2: IASC's progress toward completion of the core standards at 28 February 1999

Core standards as set forth in IOSCO's 1993 List		Current status of IASC work: Current IAS[1]	Completed work	Project under way
	General			
1	Disclosure of accounting policies	IAS 1 (1977)	X	
2	Changes in accounting policies	IAS 8 (1993)	X	
3	Information disclosed in financial statements	IAS 1 (1997)	X	
	Income Statement			
4	Revenue recognition	IAS 18 (1993)	X	
5	Construction Contracts	IAS 11 (1993)	X	
6	Production and Purchase Costs	IAS (1993)	X	
7	Depreciation	IAS 4 (1974) & IAS 16 (1998)	X	
8	Impairment	IAS 36 (1998)	X	
9	Taxes	IAS 12 (1996)	X	
10	Extraordinary items	IAS 8 (1993)	X	
11	Government grants	IAS 20 (1982)	X	
12	Retirement benefits	IAS 19 (1998)	X	
13	Other employee benefits	IAS 19 (1998)	X	
14	Research and development	IAS 38 (1998)	X	
15	Interest	IAS 23 (1993)	X	
16	Hedging	IAS 39 (1999)	X	

Table 4.2 (Continued): IASC's progress toward completion of the core standards at 28 February 1999

Core standards as set forth in IOSCO's 1993 List		Current status of IASC work		
		Current IAS[1]	Completed work	Project under way
	Balance Sheet			
17	Property, plant and equipment	IAS 16 (1998)	X	
18	Leases	IAS 17 (1997)	X	
19	Inventories	IAS 2 (1993)	X	
20	Deferred taxes	IAS 12 (1996)	X	
21	Foreign currency	IAS 21 (1993)	X	
22	Investments[2]	IAS 39 (1999)	X	
23	Financial instruments/off balance sheet items	IAS 39 (1999)	X	
24	Joint ventures	IAS 31 (1990)	X	
25	Contingencies	IAS 37 (1998)	X	
26	Event occurring after the balance sheet date	IAS 10 (1993)	X	E63 [3]
27	Current assets and current liabilities	IAS 1 (1999)	X	
28	Business combinations (including goodwill)	IAS 22 (1998)	X	
29	Intangibles other than R&D and goodwill	IAS 38 (1998)	X	
	Cash Flow Statement			
30	Cash flow statements	IAS 7 (1992)	X	
	Other Standards		X	
31	Consolidated financial statements	IAS 7 (1988)	X	
32	Subsidiaries in hyperinflationary economies	IAS 21 (1993) IAS 29 (1989)	X	
33	Associates and equity accounting	IAS 28 (1988)	X	
34	Segment reporting	IAS 14 (1997)	X	
35	Interim reporting	IAS 34 (1998)	X	
36	Earnings per share	IAS 33 (1997)	X	

Table 4.2 (Continued): IASC's progress toward completion of the core standards at 28 February 1999

Core standards as set forth in IOSCO's 1993 List		Current status of IASC work		
		Current IAS[1]	Completed work	Project under way
37	Related party disclosures	IAS 24 (1984)	X	
38	Discontinuing operations	IAS 35 (1998)	X	
39	Fundamental errors	IAS 8 (1993)	X	
40	Changes in estimates	IAS 8 (1993)	X	

[1] Effective dates are indicated in parenthesis.
[2] An Exposure Draft on Investment Properties is scheduled for March 1999.

[3] Comments on E63 are due by 15 February 1999.
Source: web: http://www.iasc.org.uk [1999: 1-3].

Then in 1995, the IOSCO indicated the possibility of using IASC standards when it publicly declared:

> "The [IASC] Board has developed a work plan that the Technical Committee agrees will result, upon successful completion, in [IASC standards] comprising a comprehensive core set of standards. Completion of comprehensive core standards that are acceptable to the [IOSCO] Technical Committee will allow the Technical Committee to recommend endorsement of [IASC standards] for cross border capital raising and listing purposes in all global markets"[IASC, 1999: 1].

When the above declaration was made, the IOSCO had already endorsed IAS 7, Cash Flow Statements, and indicated also to the IASC that 14 of the then existing International Accounting Standards did not require additional improvement, if the core standards were successfully completed. It is expected that with the completion of the core standards, the IOSCO would request its members to use International Accounting Standards in the preparation of financial statements, for multinational securities listings and offerings. The SEC in the USA which is one of the members of the IOSCO has already "... shown some support for the IASC in that foreign companies are not required to make US GAAP reconciliations for the following issues if they already follow the international accounting standards: cash flow statements, amortization of goodwill, treatment of business combinations, and accounting for foreign subsidiaries in hyperinflationary economies" [Radebaugh and Gray, 1997: 190].

IASC standards have focused on measurement and disclosure practices for all companies worldwide irrespective of size. This contrasts with the requirements of the UN and the OECD which deal primarily with disclosure by MNCs. The development of worldwide standards for all companies by the IASC appears to be an ambitious and even formidable task given the significant differences in the economies of countries, especially those of the developing countries, which are yet to be fully integrated with those of the developed countries. Moreover, national accounting systems vary greatly and are embedded in varying cultural traditions and local needs and conditions. It is not surprising, therefore, that IASC standards have generally tended to be flexible to accommodate country differences initially as a way of promoting worldwide acceptance. Moreover, IASC standards reflect Anglo-Saxon trends with major influences coming from the UK, US, and some other major industrialised and developed countries. It can be said the IASC has succeeded in codifying Western GAAP [Roberts et al., 1996].

A major problem faced by the IASC is the lack of power of enforcement of its standards. As already mentioned, professional accounting bodies of member countries are exhorted to use their 'best endeavours' to promote acceptance of IASs issued by the IASC. The success in this direction depends on the influence of the national bodies in the formulation and enforcement of accounting standards. Professional accounting bodies in countries such as the UK, USA and Canada, which are influential in the development of accounting standards, are more likely than those in Germany and Japan, which have minimal influence, to be successful in promoting acceptance of IASs. In Canada, for example, accounting standards formulated by the profession have legal backing and as such the accounting profession's endorsement of International Accounting Standards have made them legally enforceable.

The IASC is making efforts to encourage the adoption of its standards, particularly by MNCs and also by listed companies. This is being pursued through the involvement of the representatives of its Consultative Group in many of its deliberations as a way of getting them and their sponsors to observe IASs. One body which is likely to have a major impact in making the IASC and its standards influential in future is the IOSCO, if following the core standards project, the resultant International Accounting Standards are mandated for use in international listings. Moreover, the prominence of the IASC as a dominant international harmonisation driving force now, and possibly in future, is being enhanced by the fact that the UN, the OECD and the EU have now decided to stop issuing accounting standards. On the whole, however, there appears to be low observance of International Accounting Standards thereby raising doubts about the effectiveness of professional accountants in promoting acceptance of these standards.

4.6.2 UNITED NATIONS

In the mid-1970s, developing countries were very critical of the operations of MNCs. The UN was a major forum used by developing countries to voice their indignation about the operations of MNCs. In response, in 1976, the UN through its Centre on Transnational Corporations, which has now been absorbed into the UNCTAD, appointed experts to examine financial reporting in MNCs. The Group of Experts subsequently developed lists of minimum information items covering both financial and non-financial issues to be disclosed in the general purpose corporate reports by MNCs. These culminated in a comprehensive and detailed set of proposals including worldwide consolidated financial statements, segment information, and non-financial and social information.

In 1979, an ad hoc intergovernmental "working group of experts" from thirty-four countries in Asia, Africa and Latin America was established to work on a further elaboration of the earlier recommendations of the Group of Experts [Wallace, 1990a]. This group included twenty-two developing countries made up of government representatives, many of whom lacked technical competence in accounting. It is reported that the Group of Experts made little progress in reaching agreement on a number of issues, and no progress at all regarding non-financial information [Radebaugh and Gray, 1997]. The deliberations of the Group of Experts became more politicised and polarised, to the extent that fundamental issues in accounting were viewed more from the perspective of economic and regional consequences than from the standpoint of professional validity [Wallace, 1990b].

Presently, a permanent body, the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) is in place. Among the major aims of the ISAR are to improve the availability and comparability of information disclosed by MNCs and to review developments in the field of accounting and reporting including the work of standard-setting bodies [UN, 1982]. Since its inception in 1983, ISAR has been holding sessions each year and has so far considered issues pertaining to accounting for inflation, pensions, intangible assets, joint ventures, privatizations, and environmental reporting. The ISAR does not appear to have had much direct influence on the development of international accounting standards, either at the professional or MNC level, but seems to have had a useful monitoring role in officially endorsing, where appropriate, desirable international standards [Radebaugh and Gray, 1997].

4.6.3 ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

The Organisation for Economic Co-operation and Development (OECD) was set up by a Convention signed on 14th December, 1960 by twenty countries and which came into force on 30th September, 1961 with the objective of fostering international economic and social development. The OECD presently has twenty-three members and represents the interests largely of the industrialised countries of the West who are home to many MNCs. Member countries of the OECD are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, UK and USA.

The need for positive relationships between MNCs and host countries has long been an issue. In 1976, following consultation between business and trade unions, a set of *Guidelines for Multinational Enterprises* encompassing financing, taxation, competition, industrial relations, science and technology, and information disclosure was approved by the OECD which the member governments agreed to recommend. The aim of these guidelines was to strengthen confidence between MNCs and governments and to help deal with problems emanating from the activities of the former [OECD, 1976].

The OECD guidelines on information disclosure are not only brief but are concerned with disclosure by the MNC as a group entity. Moreover, the observance of the guidelines is voluntary and not legally enforceable. Though the entire guidelines were reviewed in 1979 and 1984, the original requirements pertaining to information disclosure were not altered.

The OECD reporting requirements deal with disclosure to the total exclusion of measurement issues. Issues covered are description of the structure of the enterprise; particulars of parent company and affiliates; percentage ownership including direct and indirect interests; principal activities of the parent and its affiliates including the geographical spread of operations; segmental information on sales, results, and capital expenditure; statement of sources and uses of funds; average number of employees in each geographical area; research and development expenditure; intragroup pricing policies; and accounting policies including consolidation method used. It is reported that in practice only a handful of MNCs appear to have taken notice of the OECD Guidelines [Radebaugh and Gray, 1997].

The OECD has, since 1979, established a working group which is not a standard-setting body as such, but whose role is to contribute to and participate in the international accounting standard-setting process. As argued by Radebaugh and Gray [1997], it appears that the current aim of the OECD is to work toward promoting international understanding and agreement on a variety of issues as the basis for improving the comparability and harmonisation of accounting and reporting standards. Finally, the OECD has been influential in efforts to harmonise the minimum requirements for the admission of securities to listing and the content of prospectuses.

4.6.4 EUROPEAN UNION

The Treaty of Rome (1957) sets out the objectives of the European Union (EU) which include the free movement of persons, goods and services, and capital in its fifteen member countries, namely, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Italy, Iceland, Luxembourg, the Netherlands, Portugal, Spain, Sweden, and the United Kingdom. The Common Industrial Policy (1970) of the EU calls for the creation of a unified business environment, including the harmonisation of the legal systems of member countries and consequently of company law and taxation, and a common capital market [Nobes and Parker, 1995].

Within the framework of the EU, which entails integration and development, businesses are expected to have freedom to internationalise and operate within a common framework of law, taxation, and financial resources [Radebaugh and Gray, 1997]. It is within this context that the importance and relevance of harmonisation of company law, and in particular, financial disclosure of information find justification and should be understood.

The EU has so far issued thirteen Directives, two Regulations, and six other releases on Company Law. The Directives and Regulations affect corporate accounting and reporting, auditing, and stock exchange regulations. However, the Fourth and Seventh Directives have, by far, had the most significant effects on corporate reporting and accounting.

The Fourth Directive applies to all limited liability companies and limited partnerships except banks and insurance companies. It prescribes formats for financial statements, valuation methods, the contents of annual reports and the publication of financial statements which comprise balance sheet, profit and loss account, and notes to the accounts but does not require disclosure of a statement of sources and application of funds.

Key accounting measurement and valuation principles under the Fourth Directive include historical cost basis of valuation; application of the conventions of going-concern, prudence, accruals, and consistency; rules for valuation of inventories; measurement of depreciation and amortization of goodwill over five years or longer periods up to its economic useful life, if permitted by member states.

Disclosure of the average number of employees, financial commitments, directors' benefits, and turnover by category and area are also required. Horizontal and vertical formats for presentation of financial statements are permitted. At the discretion of member countries, price-level adjusted financial statements may be required in addition to the historical-cost basis statements. Differential reporting requirements are permitted according to size of companies.

The Seventh Directive is concerned with consolidated accounts. Under this Directive, a group is defined in terms of control or ownership which is a compromise between an ownership and legal right to control concept in the UK and a management control concept in Germany. The Seventh Directive requires consolidation to be done on a worldwide basis, the use of a "fair value" approach in accounting for assets acquired through acquisitions, equity treatment of associated companies, and segmental disclosures on a geographic and line-of-business basis. Generally, the Seventh Directive reflects largely Anglo-Saxon consolidation principles.

A general evaluation of the Fourth and Seventh Directives indicates that they provide for a menu of accounting and disclosure options which make them inherently flexible. This trend perpetuates diverse practices which undermines, to some extent, the comparability of financial statements [Most, 1994; Roberts et al., 1996]. The Fourth Directive is a compromise between the Continental European and Anglo-Saxon accounting traditions, with perhaps more emphasis placed on the disclosure of the nature and effect of differences between countries, than their removal. A comprehensive evaluation of the Fourth Directive is provided by Radebaugh and Gray [1997: 178]:

> Taken overall, the Fourth Directive seems to have been very much a starting point in the harmonisation process. Its inherent flexibility concerning measurement and valuation principles and its lack of comprehensiveness with respect to issues such as foreign currency translations, leases and, funds or cash flow statement leave much to be desired. On other hand the Directive has done much to raise the level of information disclosure and transparency throughout the EU countries.

The Directives of the EU have the force of law once legislated in a member country, while the OECD and UN requirements are voluntary. Thus, companies can ignore the requirements of the OECD and the UN but are obliged to comply with the requirements of the EU. The OECD and UN requirements deal with only disclosure issues compared to the EU requirements which encompass both disclosure and measurement issues. Like the OECD and the UN, the EU has now adopted a hands-off approach to standard-setting having achieved a certain minimum level of harmonisation. It is now relying upon market forces to promote any further harmonisation which may be required [Roberts et al., 1996] and also supporting the efforts of the IASC [Nobes, 1998b].

4.7 CONCLUSION

Differences in environmental conditions of countries have created diversity in accounting systems worldwide which undermines international comparability and understanding of financial reports of companies. Moreover, the diverse accounting and disclosure practices of companies within and across countries increase transactions costs of both users and producers of financial statements which can impede the development of capital markets. International harmonisation of financial reporting enhances the comparability and comprehension to external parties of the financial reports of companies emanating from different jurisdictions so as to reduce transactions costs of users and producers of such reports. To this end, the efforts at international harmonisation being pursued by governmental agencies such as the OECD, the UN, the EU and professional organizations such as the IASC are steps in the right direction, particularly for MNCs and listed companies.

IASC standards, which are considered as international financial reporting indexes, are relevant to listed companies in ECMs, including Ghana, on which this study focuses. Indeed, the standards of the IASC are likely to have significant impact on listed companies if they are adopted by the IOSCO. The next chapter will provide insights into the state of financial reporting and the relevance of IASC standards in ECMs.

CHAPTER V

THE DEVELOPMENT OF FINANCIAL REPORTING AND RELEVANCE OF IASC STANDARDS IN EMERGING CAPITAL MARKETS

5.1 INTRODUCTION

This chapter has three strands: The first is an examination of factors which influence the development of financial reporting in ECMs. The second involves a description of the characteristics of financial reporting in ECMs. The third deals with the relevance of IASC standards in ECMs. The discussion is intended to provide a context for the evaluation of the findings of this study. The chapter has been organised into seven sections: Section 5.2 provides an overview of ECMs. This is followed in section 5.3 by a discussion of the environmental determinism theory which provides a framework for the study of the evolution and state of financial reporting in any country and internationally. Influences on the development of financial reporting in ECMs in general are discussed in section 5.4. The state of financial reporting in ECMs which covers the reliability, timeliness, adequacy and comparability of financial reports is dealt with in section 5.5. The relevance of IASC standards to ECMs is considered in section 5.6 with conclusions offered in section 5.7.

5.2 AN OVERVIEW OF EMERGING CAPITAL MARKETS

5.2.1 DEFINITION OF EMERGING CAPITAL MARKETS

According to the International Finance Corporation [IFC, 1996:2], the term "emerging capital market" may be viewed in two ways:

> " "emerging market" can imply that a process of change is underway, with markets growing in size and sophistication, in contrast to markets that are small and stagnant. The term can also refer to any market in a developing economy, with the implication that all have the potential for development."

The latter definition is adopted in this study. Consequently, ECMs which are included in the IFC database as at 1996 are the focus of this study. In this regard, Singapore and Hong-Kong which had been previously recognised as ECMs [IFC, 1989] are excluded while a number of Eastern and Western European countries are classified as such.

5.2.2 HISTORICAL EVOLUTION AND GEOGRAPHICAL DISTRIBUTION OF EMERGING CAPITAL MARKETS

Securities trading in developing countries dates to the 18th Century but the establishment of formal stock exchanges originated in the 19th Century. Many developing countries have been making efforts, especially since the 1980s, to develop capital markets. To this end, countries have sought technical and financial assistance from the IFC.

In 1983, 40 countries in the Third World had stock exchanges [UN, 1984]. The number increased to 47 in 1993 and by 1995 had reached 61 [IFC, 1994, 1996] due mainly to the establishment of several new stock exchanges in the Eastern Bloc following the collapse of communism. As many Eastern European countries embrace market reforms in the restructuring of their economies, there is the likelihood that more stock exchanges will be established in the near future. The continental distribution of ECMs at the end of 1995 is provided in Table 5.1.

Table 5.1. Continental Distribution of Emerging Capital Markets in 1995

Region	Countries
Africa and Caribbean	Barbados, Botswana, Cote d'Ivoire, Cyprus, Egypt, Ghana, Honduras, Jamaica, Kenya, Mauritius, Morocco, Namibia, Nigeria, South Africa, Swaziland, Trinidad and Tobago, Tunisia, Zimbabwe.
Asia	Bangladesh, China, India, Indonesia, Korea, Malaysia, Pakistan, Philippines, Sri Lanka, Taiwan, Thailand.
Europe	Armenia, Bulgaria, Czech Republic, Croatia, Cyprus, Greece, Hungary, Lithuania, Malta, Nepal, Poland, Portugal, Russia, Slovak Republic, Slovenia (FYR), Turkey.
Latin America	Argentina, Bolivia, Brazil, Chile, Columbia, Costa Rica, Ecuador, Mexico, Panama, Peru, Uruguay, Venezuela.
Middle East	Iran, Jordan, Oman, Saudi Arabia.

Source: Compiled from IFC(1996).

5.2.3 MARKET CAPITALISATION OF AND VALUE TRADED IN EMERGING CAPITAL MARKETS

The market capitalisation of ECMs is lower than that of the developed securities markets. In 1986, capitalisation of ECMs was US$238.6 billion compared with US$6,275.6 billion for the developed securities markets [IFC, 1996]. The capitalisation of ECMs reached US$ 1895.7 billion as against US$ 15,892.2 billion for the developed capital markets in 1995 [IFC, 1996]. In relative terms, the market capitalisation of ECMs at 1995 represents 11% of world capitalisation which is well above 3.7% which prevailed in 1986.

Generally, market capitalisation as a percentage of GNP for individual ECM countries *vis-à-vis* the developed capital market countries is, comparatively, very low. In 1986, market capitalisation as a percentage of GNP amounted to 78.4% for UK and 62.7% for US compared with 9.6% for India, 5.5% for Pakistan and 3.2% for Argentina [Khambata and Khambata, 1988]. However, relative to the size of their domestic economies, many emerging markets are larger than or equal in size to the capital markets of developed countries [IFC, 1996].

ECMs have been growing at higher rates than the developed capital markets. For a decade ending 1989, the growth in capitalisation of ECMs as a whole was 338% compared with 256% for the developed securities markets [IFC, 1989] though some individual ECMs such as Trinidad and Tobago, Venezuela, Nigeria, Argentina, Zimbabwe, Colombia and Chile experienced a decline [IFC, 1989]. Since 1985, trading activity in ECMs as a whole has been higher than that of the developed markets. Turnover as a percentage of capitalisation increased from 39.1% in 1985 to 108% in 1988 in ECMs compared with an increase from 36.9% to 58.4% in the developed capital markets for the same period [IFC, 1989]. Indeed, ECMs such as Taiwan, South Korea, Brazil, India and Malaysia have greater turnover than some of the developed securities markets. For example, in

1988 turnover/capitalisation in Taiwan, Korea and Thailand averaged 233%, 90% and 65% respectively compared with 65% for Japan and 62% for the US, the two most active of the developed capital markets [IFC, 1989]. Value traded in ECMs increased several fold from US$ 82.85 billion to US$ 1033.49 billion compared with an increase from US$ 3490.72 billion to US$ 10632.76 billion in the developed capital markets in 1986 and 1995 respectively [IFC, 1996]. Thus, the increase in value traded from 1986 to 1995 was 1247.42% for ECMs and 304.60% for the developed capital markets.

The foregoing trends indicate that ECMs are set to grow and become an important part of the global capital market, which requires, among other things, that they operate smoothly, efficiently and enjoy stability. This necessitates that appropriate regulatory measures, one of which is adequate financial reporting, are enforced. It is against this backdrop that the state of financial reporting and the relevance of IASC standards in ECMs are subsequently examined in this chapter.

5.3 ENVIRONMENTAL DETERMINISM THEORY

The environmental determinism theory states that there is a positive relationship between financial reporting and its environment [Cooke and Wallace, 1990]. In this regard financial reporting is perceived to be influenced by economic, social and political factors of the environment in which it operates. These environmental factors can be dichotomised as internal and external [Mueller, 1967; Cooke and Wallace, 1990; Adhikari and Tondkar, 1992; Willman, 1997; Radebaugh and Gray, 1997]. The internal factors originate from within a country. The external factors, however, emanate from outside of a country.

The internal or intra-country factors are: stage of economic development, inflation, taxation, societal goals, legal rules, political system, education, professional development, culture, financial press, accounting regulatory systems and nature and characteristics of business organizations. External factors include colonialism, multinational corporations (MNCs), regional economic communities, international trade, international capital markets, international accounting standards, international accounting firms, international lending institutions and intergovernmental organisations such as the United Nations (UN), Organisation for Economic Co-operation and Development (OECD), Organization of African Unity (OAU) and others. The quality of financial reporting in any country and internationally is better understood by reviewing the impact of these environmental factors on its development.

The environmental factors which shape financial reporting are neither time-bound nor space-bound. Moreover, the factors are not independent. Indeed, they may be interrelated [Cooke, 1989a, 1989b; Cooke and Wallace, 1990; Nobes 1998a] and are also dynamic in space and time [Nobes 1998a]. It is logical, therefore, to expect financial reporting to evolve in response to changing environmental conditions. The speed and nature of the evolution, however, are dictated by interplay of the relevant environmental factors, some of which may have dominant influence.

Given differences in environmental factors among countries, the environmental determinism theory suggests that financial reporting systems of countries are likely to differ. The same model predicts also that countries with similar environmental conditions are likely to have similar financial reporting systems. Furthermore, a number of accounting systems are likely to be found in a country at a particular point in time or over time [Nobes 1998a].

The environmental determinism theory underlies an hypothesised [Mueller, 1967; AAA 1977; Nobes, 1983, 1998a] and empirically derived [Da Costa et al., 1978; Frank, 1979, Nair and Frank, 1980, 1981; Doupnik and Salter, 1993] accounting and reporting clusters. Empirical evidence of the scope of accounting and reporting regulations and practices explained from the standpoint of the environmental-cause theory is also available in the literature. Cooke and Wallace [1990] provide evidence that there are differences between the extent of nominal financial reporting regulation of developed and developing countries when viewed from their environmental status. Choi [1973b] also shows empirically that disclosure of information by companies is influenced positively by international capital market pressures. Adhikari and Tondkar [1992] reveal empirically that financial reporting regulation is positively related to capital markets development.

pressures. Adhikari and Tondkar [1992] reveal empirically that financial reporting regulation is positively related to capital markets development. Belkaoui [1990] shows that actual disclosure worldwide is positively influenced by academic, professional and managerial factors.

Other explanations of the environmental-cause theory can be found in agency theory [Singhvi and Desai, 1971; Chow and Wong-Boren, 1987; Cooke, 1989a], political and economic consequences theory[Zeff, 1978; Watts, 1977; Watts and Zimmermann, 1978, 1979; Goodrich, 1986], cultural theory [Jaggi, 1975; Gray, 1988; Gray and Vint, 1995; Nobes 1998a] and historical and institutional theory [Kapaya, 1995], among others. These other theories are competing explanations of the environmental determinism theory. The environmental determinism theory, however, provides a broad framework for the study of the evolution and state of financial reporting.

5.4 INFLUENCES ON THE DEVELOPMENT OF FINANCIAL REPORTING IN EMERGING CAPITAL MARKETS

5.4.1. OWNERSHIP, SIZE, INNOVATIONS AND COMPLEXITY OF BUSINESS

Predominantly closely-held or family-owned corporate businesses do not call for extensive disclosures compared with companies whose securities are widely-held by the public. In the USA, the huge public interest in corporate securities has led to the production of accounting standards promoting wide and open disclosure [Choi and Mueller, 1992]. In France, Recognising the dimension of size and the degree of public ownership of corporate securities, the American Institute of Certified Public Accountants (AICPA) has promoted different accounting standards for the smaller, closely-held enterprises. A large conglomerate operating in significantly differing lines of business and/or across countries needs financial techniques different from those of a mono-product small firm. Thus, while multinational enterprises would produce segmental information, a domestic enterprise producing say a single product would not need such information. Business innovations also affect accounting practices. In the United States, where stock dividends occur, due cognisance is given to their treatment in financial accounts. With the advent of business mergers and acquisitions in Europe, there emerged a strong need for accounting standards to regulate their treatment.

Generally, companies in ECMs are smaller in size compared with those in the developed capital markets [Marston, 1986; Saudagaran and Diga, 1997b]. In addition, financial sophistication is not obtained in ECMs. In respect of India, Narayanaswamy [1996: 140] has noted that, "The level of sophistication of financial instruments is very low by international standards. Since there are not many business transactions requiring complex accounting treatments, measurement and disclosure practices have remained fairly simple."

5.4.2. LEGAL AND POLITICAL SYSTEMS

Legal systems and political ideology or systems influence accounting development. In Roman and code law countries such as France, accounting standards and procedures are codified. In such countries, detailed accounting procedures have been developed for religious application. In common law countries, however, accounting policies are developed largely by professional organizations and are applied in a more flexible manner. Under martial law, accounting may be regulated by a governmental agency, as in Nazi Germany during World War II, when a uniform national accounting system for purposes of total control of national economic activities was required.

In centralised or socialist economies, the trend in accounting is to concentrate more on budgeting and techniques for internal reporting. In such centralised states, the state owns all fixed assets including land and there may be little or virtually no private ownership of business. The concept of periodic profit calculation and reporting does not therefore, make sense. The contrast is obtained in capitalistic states where private enterprise is the norm rather than the exception. In such countries, financial reporting aims to emphasise the custodial and stewardship functions of management.

It has been noted that financial reporting is exceptionally impacted by regulation [Adhikari and Tondkar, 1992; Willman, 1997]. Specific legislative provisions for certain accounting rules and techniques in a country dictate accounting practice in respect of those items. In many western countries, local Companies Acts prescribe accounting treatment and disclosure of certain items which are binding on the accounting profession and companies.

The degree of legislative business interference also influences accounting development. For example, tax legislation may require the application of certain accounting principles. For example, in Sweden tax allowances are entered into financial statements before they can be claimed for tax purposes. In India, companies are required by the Companies Act to provide information on industry capacity utilisation and cost accounting data in their annual reports [Marston, 1986].

As already observed, ECMs are not a homogeneous set of countries. These countries have different political systems based on different political ideologies and varied legal systems. Consequently, the institutions, culture and financial reporting requirements and practices vary. Notwithstanding the move towards reforms in China, for example, the influence of the government is still greatly felt in many areas of economic activities. Public regulation is a major feature and the need for financial accounting and reporting to meet the information requirements for macro-economic planning is still emphasised in China [Xiao et al., 1995].

One disturbing feature in ECMs is the lack of effective enforcement of financial reporting requirements imposed by law, which affects not only the extent but also the reliability of disclosure in annual reports [Wallace, 1987; Chow and Wong-Boren, 1987; Ahmed and Nicholls, 1994]. Lack of effective enforcement of accounting regulation is attributed to inadequate institutional mechanisms and professionals [Saudagaran and Diga, 1997b].

5.4.3. HISTORICAL AND COLONIAL LEGACIES

A country's association with a colonial power has, in many instances, had some significant influence on subsequent financial reporting. Indeed, colonisation has been identified as the most important vehicle for accounting technology transfer within the British Empire and the Commonwealth [Briston, 1978; Hove, 1986; Marston, 1986]. British accounting has been exported in a large measure to other Commonwealth countries, many of which are ECMs. As noted by Briston [1978: 108]: "In a number of countries,...the British influence is very long standing, and almost all of the colonial territories in which any substantial degree of industrial development took place under British rule will have imposed upon them a British Companies Act with the usual reporting and auditing requirements." This has been the situation in Nigeria, Ghana, India, Zimbabwe, to mention only a few [Wallace, 1987; Hove, 1986; Marston, 1986, Singhvi, 1967, Narayanaswamy, 1996]. For example, the "Indian legal and political systems evidence the significant influence of about two centuries of British colonial rule. Successive English Companies Acts and commercial law have left their imprint on Indian Company Law including requirements relating to accounting and reporting" [Narayanaswamy, 1996: 138]. In many cases, the Companies Acts imposed by the British have not undergone any major changes after the countries gained independence.

Accounting practice and thought in the Philippines, as well as commercial and legal systems, have also been influenced strongly by the USA which "...is greatly a legacy of the colonisation of the Philippines by the United States between 1848 and 1946" [Saudagaran and Diga, 1997b: 21]. France also imposed its uniform accounting system on its colonies such as Algeria, Cameroon, La Cote d' Ivoire and Tunisia. The upshot of the foregoing is that accounting and reporting requirements and practices of ECMs largely mirror those of the major developed nations, not accidentally, but as a result of colonial legacies.

5.4.4. EDUCATION AND PROFESSIONAL DEVELOPMENT

Closely related to the colonial factor discussed above is the influence of the educational systems of the developed countries on developing countries and their impact on financial reporting. Accounting ideas and/or qualifications may be exported [Parker, 1989]. Many developing countries have had to rely on their 'colonial masters' for resources to develop models of education generally and accountancy education in particular.

Until the establishment of local institutes for professional training in accountancy, people from many former colonies acquired professional qualifications from associations in the countries of the colonial masters. By so doing, the practices of the colonialists are imported into these countries.

Accountancy education in Ghana, Nigeria, Sierra Leone, Kenya and Uganda to mention only a few, have been influenced strongly by Britain, which colonised them. Similarly, France has been a dominant influence on the La Cote d'Ivoire, Algeria, Tunisia. The American influence has also been felt in Liberia and Philippines. Notwithstanding the colonial influences, there are also insufficient numbers of professional accountants in both industry and practice in ECMs which is an impediment to the development of improved financial reporting [Saudagaran and Diga, 1997b].

5.4.5. ECONOMIC GROWTH, SOCIAL AWARENESS AND CAPITAL MARKET DEVELOPMENT

Less developed and less sophisticated economies are unlikely to have accounting practices similar to developed and industrialised countries. Unlike the developed countries, the need for extensive credit and long-term business contracts may not arise in developing countries such that cash accounting, rather than accrual accounting, becomes more pervasive. Industrialisation and economic growth, generate some social awareness among citizens of a country. In developed countries, social awareness is rife and as such there is greater demand on enterprises to discharge their social responsibility. Such enterprises are compelled directly or indirectly to extend their financial reporting to encompass disclosure of social information such as pollution control, contribution to charities, community development programmes, employees information and a host of other social disclosures.

The development of capital markets also influences corporate financial reporting and other forms of disclosures. With the development of capital markets there emerges the need to afford investors adequate protection through the disclosure of information in interim reports, annual reports and other media. Companies seeking capital tend to provide more information to ensure transparency in order to raise capital at the most competitive terms. Stock exchanges also tend to impose more accounting and reporting requirements.

In the advanced countries where capital markets are developed, there exists improved financial reporting practices and extensive disclosure of information by listed companies compared with the developing countries with less developed capital markets. Relative to the developed capital markets, many ECMs do not impose additional financial reporting requirements on listed companies apart from what the extant Companies Acts provide [Al-Modahki, 1995]. Even where they do, the disclosure requirements tend to be minimal compared with the developed capital markets [Marston, 1986]. Comparative studies of India and the UK [Marston, 1986] and India and the USA [Singhvi, 1967] provide evidence that disclosures in the developed capital markets are superior to those in ECMs. As observed by Marston [1986: 113]: "It seems logical to expect that a developed country with a complex economy and sophisticated markets for capital would display a higher level of disclosure than a less developed country"

It is also the case that the level of sophistication of business management and the financial community also influence financial reporting. In developed capital markets, there is greater demand for sophisticated and complex information for security analysis and decision-making which is satisfied by the existence of requisite professionals. The situation in ECMs is, however, largely different. While investors are generally not sophisticated, only a few market professionals are available, coupled with an undeveloped financial press, such that the demand for information, and therefore, pressure on listed companies, is not as high as in the developed capital markets [Saudagaran and Diga, 1997b]. The result of this is that there are minimal disclosures in ECMs compared with the developed capital markets. This trend is likely to change as larger numbers of investors from the developed economies invest in ECMs.

5.4.6. INTERNATIONAL INFLUENCES

International business and international associations impact on the development of financial reporting in ECMs. MNCs have exported and continue to export their accounting and reporting practices from their home countries to ECMs where they have invested. The headquarters of MNCs seek to impose corporate cultural and reporting practices on their subsidiaries as a means of controlling their behaviour and facilitating consolidation of financial statements and performance evaluation. This is done through training and education of local recruits, transfer of personnel from one country to another, and sometimes by providing assistance to developing countries in their overall educational programmes. In this regard, accounting and reporting practices of subsidiaries of MNCs in ECMs are likely to mirror that of their parent companies and for that matter, the countries of origin. Al-Modahki [1995] reports that the influence of the USA on accounting in Saudi Arabia has been promoted through the efforts of the Arabian American Oil Company.

International influences on financial reporting in ECMs have also emerged from international professional accounting associations, the large multinational accounting firms and international lending agencies. At the global level, the IASC and the IFAC have been introducing accounting and auditing standards respectively with the view to harmonising practices. It is reported that more than half of all existing ECMs have adopted IASC standards [Saudagaran and Diga, 1997b]. The large international accounting firms have also been influential in training accounting professionals in ECMs. In addition, international lending agencies such as the World Bank and its affiliated institutions insist on the use of the large and international accounting firms, particularly, the 'big six' firms, to audit projects financed by them in ECMs. These international accounting firms, which are mainly of UK and US origins and also patronise IASC standards to a large extent, have become convenient vehicles for the transfer or export of Anglo-Saxon accounting and reporting principles and IASs to ECMs.

5.5 QUALITY OF FINANCIAL REPORTING IN EMERGING CAPITAL MARKETS

It has been observed that investors have limited confidence in emerging capital markets as a result of inadequate regulations and poor disclosure of information by companies [Scott, 1970; Quershie, 1974; Calamanti, 1980a, 1980b; Enthoven, 1981]. As a major source of corporate information and disclosure, the accounting infrastructure is important to the development and growth of ECMs. It is imperative, therefore, to foster improvement in the quality of financial reporting in ECMs to serve as one of the catalytic factors for their growth.

The quality of financial reports is judged in terms of adequacy, timeliness, reliability and comparability among companies, across countries and over time [IASC, 1997; Saudagaran and Diga, 1997b]. Though the above criteria are qualitative in nature, they provide the focal point for developing benchmarks for comparing and improving the performance of extant financial reporting systems in capital markets [Saudagaran and Diga, 1997b]. The evaluation of the quality of financial reporting in ECMs in this chapter is done using the criteria of adequacy, timeliness, reliability and comparability of financial reports of companies.

5.5.1 RELIABILITY OF FINANCIAL REPORTS IN EMERGING CAPITAL MARKETS

Improved disclosure is fostered by heightened market pressures [Meek and Gray, 1988], developed analytic capability of market intermediaries [Kirkpe, 1980] and a sophisticated financial press [Saudagaran and Diga, 1997b]. The above factors are largely present in the developed capital markets relative to ECMs, a situation which appears to justify the need for greater regulation of financial reporting in the latter. Extant companies legislation, stock exchange requirements and professional accounting standards are the sources of accounting and disclosure requirements in capital markets. These requirements do not only need to exist but compliance with them by companies is necessary if reliable financial reports are to be obtained.

Generally, financial reports in ECMs are perceived to be less reliable than those generated in the developed capital markets [Singhvi, 1967; Jaggi, 1975; Turner, 1983; Al-Hajeri, 1992; Saudagaran and Diga, 1997b]. Financial reporting in developing countries is generally at a low level of development and investors question the reliability of disclosed financial information. As Al-Hajeri [1992: 71] notes of Kuwait:

> "Investors question the reliability of disclosed financial information and in many cases do not regard it as an effective factor in the economic decision making."

One of the causes of low reliability of financial reports in developing countries is the lack of compliance with accounting and disclosure requirements. Lack of compliance with financial reporting regulation in developing countries has been empirically found in India [Singhvi, 1967], Mexico [Chow and Wong-Boren, 1987], Nigeria [Wallace, 1988], Malaysia, Singapore and Taiwan [Tay, 1989], Hong-Kong [Tai et al., 1990], Saudi Arabia [Al-Modahki [1995] and Bangladesh [Nicholls and Ahmed, 1995].

While lack of compliance has also been documented in the developed capital markets, for example in Japan [Cooke, 1992] and Hong Kong [Tai et al, 1990] there is the perception that the situation is much more serious in ECMs.

Lax attitudes towards financial reporting due to an underdeveloped accounting profession and inadequate numbers of qualified auditors and accountants in ECMs do not put companies on their toes to ensure compliance with regulations. It is also the situation that there are weaknesses in the administrative mechanisms for enforcement of accounting regulations, due to the inadequate number of qualified staff in public institutions charged with monitoring and enforcing compliance with accounting and reporting requirements in ECMs. "The most rigorous requirements mean little if enforcement is inadequate or absent" [Saudagaran and Diga, 1997b: 50]. It is imperative, therefore, to ensure that companies comply with accounting and reporting regulations as a means of enhancing reliability and adequacy of financial reports.

5.5.2 TIMELINESS OF FINANCIAL REPORTS IN EMERGING CAPITAL MARKETS

ECMs have requirements regarding the period within which annual reports of companies are to be furnished to investors in capital markets. The time frame ranges between six and twelve months after the end of the company's financial year. Saudagaran and Diga [1997b] have reported that the actual release of financial statements by listed companies in ECMs varies from between two and six months after the end of the financial year.

This trend is healthy and in conformity with IASC requirements [IASC, 1997]. Nevertheless, delays occur in making annual reports available to investors in some ECMs as found by Wallace [1988a] in Nigeria. It is also the case as found by Bavishi [1989] and Tonkin [1989] that timeliness of annual reports is questionable even in the developed capital markets. Timely disclosure has implications for ECMs which are largely perceived as inefficient.

5.5.3 ADEQUACY OF FINANCIAL REPORTS IN EMERGING CAPITAL MARKETS

It is generally the case that disclosure in ECMs lags behind that of the developed capital markets. Singhvi [1967] found disclosure in India to be lower than in the USA. Saudagaran and Diga [1997b] report results of a study conducted by the Centre for International Financial Analysis (CIFAR) in 1995 and concluded that enterprises from ECMs generally provided less disclosures as compared to those in developed capital markets. It was found that only 6 (29%) of the top 21 companies in terms of disclosure were from ECMs while the bottom 20 countries included 14 (70%) ECMs. ECMs in the top 20 were Malaysia, Singapore, South Africa, Chile, Sri Lanka, and Pakistan.

Studies in South Africa [Firer and Meth, 1986], Mexico [Chow and Wong-Boren, 1987], Nigeria [Wallace, 1987, 1988a], Malaysia [Tay, 1989], Kuwait [Al-Hajeri, 1992] and Bangladesh [Nicholls and Ahmed, 1995] have found low disclosure levels by companies which also tend to fall short of investors' information needs. All is not too well as regards the adequacy of financial reports in ECMs. It appears to be the trend that market pressures are not ensuring adequate disclosure by companies in ECMs hence regulation should be imposed and enforced more firmly.

5.5.4 DOMESTIC COMPARABILITY OF FINANCIAL REPORTS IN EMERGING CAPITAL MARKETS

Diversity in accounting measurement principles and practices exists in ECMs [Meek and Saudagaran, 1990]. From an analysis of accounting requirements in 12 ECMs Saudagaran and Diga [1997b] conclude that "accounting disharmony" exists. This conclusion, however, has to be viewed with caution as the analysis focused on *de jure* harmonisation which might not necessarily be the actual situation. It is more useful to investigate actual or *de facto* practices of companies since, in a practical sense, investors use annual reports and not regulations in making investment and valuation decisions and also in monitoring managerial performance and behaviour.

5.6 RELEVANCE, PROMOTION AND OBSERVANCE OF IASC STANDARDS IN EMERGING CAPITAL MARKETS

ECMs have internationalised in recent years as reflected by the massive inflow of foreign capital. This has been attributed to high returns generated in ECMs. A number of companies are also increasingly using ECMs to raise capital. With the internationalisation of trade and finance, the accounting environments of developing countries/ECMs extend beyond their boundaries [Wallace, 1990a]. The integration of ECMs into the global capital market makes the adoption of international reporting practices imperative. Towards this end, it has been suggested that ECMs should creatively adapt and use IASC standards [Nzdingbe, 1990; Peasnell, 1993; Samuels, 1993; Larson, 1993; Chamisa, 1994].

Varying and opposing viewpoints have emerged regarding the relevance and usefulness of IASC standards in developing countries, a large number of which are ECMs. The IASC obviously advocates the view that IASs are as relevant to developed as they are to developing and newly-industrialised countries. The applicability of IASs worldwide is based on the argument that the inherent characteristics of economic transactions are the same in both developing and developed countries and that their recording and accounting do not require different treatments. Following this line of thought, it is contended that IASs can be applied in every country, at least to some degree [Aitken and Islam, 1984]. Wallace [1990b] contends, however, that the IASC wants to have a wider constituency for its products to justify and legitimise its existence hence its position that its products, IASs, are equally relevant to the developed and developing countries.

One of the objections against the use of IASC standards in developing countries centres on the functioning of the market system. IASC standards generate the conventional financial reporting model which is premised on the existence of a well-functioning market system in a country. In developing countries, however, the market mechanism seldom works well and, as such, the conventional profit model is not be a good indicator for assessing the performance of a company [Samuels, 1990]. IASs have also not been directly addressing issues related to the activities of mining and agricultural enterprises, which dominate the economies of developing countries. Instead, they have focused on industrial enterprises which reflect the circumstances of the advanced countries of the West [Hove, 1986, 1989, 1990; Briston, 1990; Wallace, 1990b; Ndzingbe, 1990]. Samuels and Oliga [1982], Samuels [1990] and Briston [1990] argue that IASC standards are largely irrelevant and could be harmful to developing countries. Ndubizu [1992] provides evidence that IASC accounting standards are likely to have adverse effects as they tend to discourage MNCs from investing outside resources in developing countries.

It is generally acknowledged that accounting must respond to its environment if it is to serve society effectively [Briston, 1978; Samuels and Oliga, 1982; Meek and Saudagaran, 1990]. Meek and Saudagaran [1990: 154] have noted:

> "accounting numbers have little significance in and of themselves. Meaning and significance come from and depend upon an understanding of the environmental context from which the numbers originate and also from the relationship between the numbers and the underlying phenomena."

Samuels and Oliga [1982] argue that although the efforts at international harmonisation of accounting standards are for the most part well intentioned, they nonetheless are misguided so far as developing countries are concerned. The circumstances of developing countries, no doubt, differ from those of the industrially advanced countries on which international accounting standards are based. In developing countries, the need for economic data for macro-economic planning and social purpose is seen as a major factor that should influence the thrust of accounting standards, which is not the case for the advanced industrialised countries [Briston, 1978; Hayes, 1980; Hove, 1986, 1989; Samuel and Oliga, 1982; Samuels, 1990; Ndzingbe, 1990; Wallace, 1990a].

Samuels [1990] identifies problems of developing countries and proposes various financial reports which will be useful as indicated in Table 5.2. Admittedly, if the position of Samuels is valid, then it can be concluded that IASC standards partially address the needs of developing countries for not covering many of the areas indicated above by Samuels [1990].

Table 5.2: Major problems of developing countries and types of accounting statements that would help in their solution

Problem	Relevant accounting reports and statements
(1) Economic growth	(a) Profit and loss account
	(b) Balance sheet (with notes) based on inflation adjusted figures
(2) Unemployment	Employment report
(3) Balance of payments	Statement of transactions in foreign currency
(4) Income/wealth distribution	(a) Adapted value added statement
	(b) Analysis of shareholders
(5) Level of technology	Education/training report
(6) Regional imbalances	(a) Regional flow of funds statements
	(b) Regional distribution of assets
(7) Safety/security	Employment report
(8) Impact of environment	Special report
(9) Corruption	Audit report

Source: Samuels [1990: 80].

It may be necessary, if the concerns pertaining to developing countries are to be addressed, for the IASC to go beyond what is offered by the present IASs. The imposition or introduction of the reports suggested by Samuels [1990] which are not currently produced by companies will entail some costs and benefits. Whether or not companies in ECMs will prepare these reports will be determined by their assessment of the net benefit (or cost) to them which calls for empirical research.

The foregoing arguments, notwithstanding, it is widely suggested in the literature that IASs could be relevant to developing countries if adapted to reflect their social, economic and political circumstances [Samuels and Oliga, 1982; Ndzingbe, 1990; Wallace, 1990b; Larson, 1993; Peasnell, 1993; Samuels, 1993; Chamisa, 1994]. To the extent that international accounting standards do not take cognisance of the peculiar circumstances of developing countries, their usefulness becomes questionable. There is the need for a creative adoption of IASs if they are to be beneficial to developing *countries. Peasnell [1993: 5] has noted:*

> "Countries...can simply adopt IASC pronouncements at negligible (out-of-pocket) cost, possibly increasing the confidence of investors whilst doing so. The price they may pay in achieving such economies, is of course, to impose disclosure requirements on their own enterprises that are too complex or otherwise inappropriate to local needs."

In spite of the criticisms levelled against IASC standards in developing countries, there are obviously instances where they can be usefully applied with modifications. It needs to be emphasised that developing countries are not homogeneous. Wallace [1987: 223] has noted:

> "developing countries are not a homogeneous group. The differences in the quality and environment of accounting and financial reporting in these countries are real and significant. No meaningful generalisations can be made about accounting in these countries until we understand the conditions which promote or constrain the growth of accounting in many of them."

Consequently, the generalisation that IASs are irrelevant to developing countries as a whole ought to be viewed with caution [Wallace, 1990b; Chamisa, 1994]. Indeed, IASs have utility for international trade and business rather than being substitutes for decisions in the domestic environments of developing countries [Samuels and Oliga, 1982; Violet, 1983]. While Briston [1990: 202] continues with his strong criticisms of IASs in developing countries, he alludes to the fact that they "relate only to companies in the private sector". IASs are also considered useful to the functioning of capital markets. Nobes and Parker [1995: 130-1] have noted:

> "it may be sensible (as well as easier) to direct harmonisation attempts at listed companies. These are an easily defined set that has many shareholders and is most involved in international trade and capital raising. For this set, Anglo-Saxon accounting does seem the appropriate system upon which to harmonise because it stresses the true and fair view, substance over form, independent audit, consolidation, shareholder orientation."

Saudagaran and Diga, [1997b: 60] have also observed:

> "In an increasingly globalised economy, some form of accounting harmonisation seems warranted. This assertion is particularly salient for ECMs because these markets depend substantially on inflow of foreign portfolio investments for their continued growth."

Peasnell [1993: 5] notes that one way of minimising the cost of IASs to developing countries "is to restrict the scope of such standards to enterprises where the benefits are likely to outweigh the costs- for example, to private sector firms with securities markets (or otherwise raising funds from the public)". Wallace [1993: 133] has also remarked that "Implicit in the portfolio of extant IASs is the erroneous notion that economic development only implies industrialisation and the development of ancillary stock and capital market operations."

The global model of accounting harmonisation represents a rational choice for ECMs within the context of a global capital market. In this regard, IASs, which are perceived as benchmarks of good practice, should be applied in ECMs in order to enhance investor protection and increase the confidence of investors in ECMs [Larson, 1993, Saudagaran and Diga, 1997b]. The relevance of IASs to capital markets and listed companies, be they MNCs or not, is upheld in this study. It is, accordingly, argued that it will be beneficial to the development of the Ghana Stock Exchange for listed companies to observe international accounting standards.

A large number of ECMs have adopted and/or adapted IASC standards which is an indication of some implicit faith in their usefulness. The adoption of IASs in a country, however, is of no practical usefulness unless companies actually follow the practices recommended in the standards [Samuels, 1993; Chamisa, 1994]. Chamisa [1994: 144] has noted:

> "The real challenge to accounting bodies in emerging or developing economies which are members of IASC does not lie

> in merely adopting IASC standards. This is a comparatively simple thing to do. The real and ultimate challenge is for these accounting bodies to ensure that companies in their respective countries do in fact observe the IASs adopted."

Conformity to IASs, by listed companies in ECMs should be an indication of a high quality of financial reporting. It is, therefore, necessary for professional accountants and even governments in ECMs to strive to creatively adopt and promote IASs.

5.7 CONCLUSION

A number of environmental factors, some of which are country specific, influence accounting and reporting practices in ECMs. Accounting principles and reporting practices of the developed countries have influenced and will continue to influence financial reporting in ECMs through historical linkages, education and training, international auditing firms, international lending organisations and MNCs. The development of sophisticated capital markets in ECMs coupled with their internationalisation will heighten pressures for improved financial reporting from investors and regulators. Presently, however, financial reporting practices in ECMs do not only reflect a lack of sophistication and diversity, but exhibit a number of deficiencies. These deficiencies include lack of compliance with regulations and ineffective regulatory institutions, low levels of disclosure, untimely release of annual reports by companies and lack of adequate number of professional accountants. The deficiencies need to be corrected in order to improve financial information disclosure and to enhance investor protection. IASC standards provide one of the options for accounting regulation in ECMs, which are growing rapidly and becoming a significant and integral part of the global capital markets. In view of the differences in the sophistication of the economies, institutions and companies in ECMs, there is the need for a creative adoption of IASC standards to reflect country-specific circumstances. The next two chapters, will be devoted to a review of prior empirical research into financial reporting which will also throw some light on the state of financial reporting in ECM's vis-à-vis the developed capital markets.

CHAPTER VI

REVIEW OF PRIOR EMPIRICAL HARMONISATION STUDIES

6.1 INTRODUCTION

Emenyonu [1993] has delineated five main, but sometimes overlapping, categories of international harmonisation research as international surveys, classification studies, harmonisation measurement, quantitative impact of international accounting standards and behavioural. However, this review of prior empirical research will dwell on the measurement of harmonisation since it is the subject of interest in this research study. In this regard, two groups of studies are relevant. These are studies dealing with assessment of compliance or conformity with international accounting standards and measurement of comparability of financial reports which are presented in section *6.2 and section in 6.3 respectively.* A neat line of distinction between the two categories of studies cannot always be drawn since both are sometimes covered in the same study. Some studies have even combined disclosure and harmonisation measurement as will be pursued in this study. However, where a study covers both strands of harmonisation issues, a judgement is made to classify it taking into account the weight of emphasis.

6.2 INTERNATIONAL ACCOUNTING STANDARDS CONFORMITY STUDIES

Nair and Frank [1981] investigated the extent to which countries had made changes in their practices in conformity with the first ten IASs which were in existence by the end of December, 1979. The authors analysed accounting practices in 37 countries reported in the 1973, 1975 and 1980 Price Waterhouse survey data. A preliminary analysis revealed that complete harmonisation had not been achieved on any of the 131 practices reported in the three surveys. After adopting a less stringent operational definition of harmonisation, taking it as representing a required practice in more than 50% of the thirty-seven countries, 49 out of the 131 practices qualified for further analysis.

Using the Friedman's ANOVA test, the authors observed that a significant shift had occurred for 29 practices between 1975 and 1979, the period during which the IASC issued standards 1-10. Twenty of the 29 practices related to seven IASC standards, each of which revealed a direction of change consistent with the position espoused by the IASC. Harmonisation was not detected on those items for which the stand of the IASC was in conflict with the stand of the USA. Twenty countries moved towards harmonisation in varying degrees with the USA showing the least harmonisation. The authors concluded that the period of IASC's existence had coincided with a growing harmonisation of standards.

Evans and Taylor [1982] examined the impact of five IASC standards on financial reporting in five founding member countries of the IASC, namely, France, Japan, UK, USA and West Germany from 1975-1980. IAS 2, IAS 3, IAS 4, IAS 6 and IAS 7 which dealt with valuation of inventories, accounting for minority interest, depreciation, accounting for changing prices and presentation of statement of changes in financial position respectively were studied. The study involved analysis of financial statements of about nine to ten large corporations in each of the five countries.

Compliance with IAS 2 increased in the UK and USA and declined in Germany. The disclosure of minority interest increased marginally in Japan but declined in the USA. The standard had no impact in France, Japan and West Germany regarding the use of the equity method of accounting. Compliance with depreciation methods required by IAS 4 declined in France but did not change in the other countries. Disclosure of depreciation details increased in the UK and USA. While compliance with IAS 6 improved in the UK it declined in Japan. IAS 7 did not have any impact in any of the five countries. The authors concluded that the IASC had very little impact on the accounting practices in the countries surveyed.

Gorkan [1984] investigated the need for and possibility of achieving worldwide harmony of accounting practices and the extent of acceptance and observance of, and compliance with IASs 1-13 in member countries. The study involved a questionnaire survey of three accounting experts of major accounting firms in each of the 63 member countries of the IASC except Israel.

Gorkan [1984] found that 98% of respondents indicated that there was a need for harmonisation of accounting and reporting internationally. It was the view of 93% of respondents that international harmonisation of accounting could be a reality. It was also discovered that IASs were not uniformly being adopted locally and that compliance levels differed among continents; likewise action taken on non-compliance. The respondents also felt that the IASC provided a good framework for countries that are at an early stage of developing accounting standards. It was also noted that in view of its voluntary nature, action on non-compliance with IASs was not often found.

McKinnon and Janell [1984] investigated whether practices of companies in respect of depreciation and accounting for minority interest conformed with IASC standards, the extent to which a change in practices was attributed to the IASC standards and the effectiveness of the IASC in developing a standard to deal with foreign currency translation. The researchers used the 1979 Price Waterhouse (PW) data.

McKinnon and Janell [1984] found that practice in respect of depreciation was based on previous standards. In countries where the equity method of accounting for minority interest in inter-corporate investments was adopted, reasons such as securities legislation in Japan, compliance with requirements imposed by regional bodies like the EC, and the influence of the USA and UK were found to be more compelling than IASs. The IASC was found to have exhibited weakness in its failure to issue a standard advocating the current rate method of accounting for foreign currency. The authors concluded that the IASC had succeeded in identifying and codifying standard practice in much of the world but did not influence practice in the countries covered in the PW survey.

Doupnik and Taylor [1985] ascertained the extent to which countries of Western Europe conformed to a basic core of accounting practice as evidenced by the level of compliance with the first eight IASC standards. The study which covered 1979 and 1983 used the 1979 PW data. A questionnaire on 53 propositions comprising 17 measurements and 36 disclosure issues was sent to PW offices worldwide for respondents to indicate, on a Likert-scale, the extent to which each measurement proposition conformed to IASs. Responses from fifty countries in Western Europe, Africa, Asia and Australia, Latin America and North America were received and analysed. Weighted average scores measuring the level of compliance with IASC standards were derived for each item. Mean weighted average scores for five geographic areas were calculated to ascertain the relative quality of financial reporting.

Doupnik and Taylor [1985] found that compliance with requirements pertaining to disclosure was greater in both 1979 and 1983 than measurement procedures. For both measurement and disclosure items, however, there was, on average, an increase in the level of compliance from 1979 to 1983. Europe was found to have the lowest mean scores in both 1979 and 1983 which was surprising given the region's relatively more developed economy and accounting practice. The authors explained this trend to be due to the fact that individual European countries developed their own accounting standard-setting processes long ago and felt less obliged to conform to standards set by an international body. They argued further that accounting standard-setting processes in other regions were, on the other hand, relatively less developed compared with Europe, and were therefore likely to be influenced more by IASC pronouncements.

Taylor, Evans and Joy [1986] studied the extent to which comparability and consistency of accounting practices had improved since the issuance of five IASs by the IASC and the differences in improvement in comparability and consistency among countries of varied cultural and accounting traditions. The IASs included in the study were: IAS1 'Disclosure of Accounting Policies', IAS2 'Valuation and Presentation of Inventories', IAS3 'Consolidated Financial Statements', IAS4 'Depreciation Accounting', and IAS7 'Statement of Changes in Financial Position'. Opinions of experts from the then "Big Eight" public accounting firms in thirty-two IASC member countries were surveyed using questionnaires.

Using paired (matched) comparison t-tests, Taylor et al. [1986] found that the respondents judged both comparability and consistency to be greater presently than before the IASC standard became effective for each of the 5 International Accounting Standards. Analysis of Variance (ANOVA) revealed that comparability and consistency scores for national reporting pertaining to IASs 1, 3, and 7 differed significantly among Anglo-American, European and Other (comprising African, Asia, Latin America, and Middle East) groups of countries. Significant differences were found among groups in respect of IAS 1 while the reverse was the case for IASs 2 and 4. However, the perceived improvements in comparability and consistency were not statistically significant. It was concluded that the IASC, through its international accounting standards, appeared to have succeeded in improving the consistency and comparability of international accounting reports and thereby reducing the diversity of international reporting practices.

Doupnik [1987] investigated the degree of harmonisation of accounting practices and improvement in the quality of financial reporting internationally since the establishment of the IASC. Accounting practices of companies in 1975 and 1985 were compared. The quality of financial reporting was measured by the extent of compliance with IASC standards. Based on the 1975 and 1985 PW survey data, 70 accounting and disclosure propositions were generated and used in a questionnaire survey. Included in the 70 questions were 32 disclosure and 15 measurement practices addressed by the IASC. A survey questionnaire was addressed to the managing partners of PW offices in the 46 countries included in the 1975 survey. Each respondent was asked to indicate, on a five-point Likert-scale, the extent to which a particular accounting practice was used in the country that he or she was working. Responses were received from 36 countries. The results of factor analysis revealed that, with the exception for West Germany and Switzerland, for the most part, differences in financial reporting among countries had decreased and that the quality of financial reporting internationally increased from 1975-1983.

Nobes [1990] examined the direct effects of IASs 3, 4 and 22 on listed corporations in the USA. Three IASC requirements which were not required in the USA were investigated. These were reporting minority interest separately in consolidated balance sheets; showing lives of depreciable assets and rates of depreciation; and disclosing the amounts of assets transferred in poolings, the percentages of voting shares involved, and the effective date of pooling. A survey of 1985 annual reports of 200 randomly selected companies listed on the NYSE and AMEX was conducted. Where necessary, questionnaires were used to discover more information about the practices of companies by surveying their financial controllers. It was found that for the areas studied, USA corporations did not comply with IASs. It was concluded that any apparent compliance was the result of pressure from auditors or users of financial statements rather than the IASC.

Ndzingbe [1990] examined the extent and prospects of regional harmonisation of accounting practices and education and training in the SADCC region comprising English-speaking Botswana, Lesotho, Malawi, Swaziland, Tanzania, Zambia, and Zimbabwe and Portuguese-speaking Angola and Mozambique. The author identified and evaluated the extent to which the conditions in the region could facilitate accounting harmonisation. The author found that the English-speaking countries of SADCC could, for the time being, pursue regional harmonisation of accounting practices and education and training to the exclusion of Angola and Mozambique, the Portuguese-speaking countries. He also found that unlike Botswana, Malawi and Lesotho which had adopted all, Zimbabwe and Swaziland had adopted a fraction, while Tanzania, Zambia, Angola and Mozambique were yet to adopt IASs. The enforcement of IASs was not, however, ensured in the countries in which they had been adopted. Nevertheless, from interviews with representatives of accounting bodies in the countries, a consensus emerged that IASs would be useful as a starting point for the harmonisation of accounting in the region.

The extent to which accounting measurement practices in Denmark compared with IASC standards proposed in Exposure Draft (ED) 32, the *Comparability Project,* was investigated by Comiskey and Mulford [1991]. Accounting *measurement practices in the 1987 or 1988 annual reports of* seventeen industrial firms from sixteen industrial groups were surveyed and compared with the proposals contained in ED 32. The accounting and reporting practices studied were the income statement and balance sheet, the funds statement, the source of accounting policies, consolidation policy, revenue recognition, extraordinary items, inventories, investments, fixed assets and depreciation, income taxes, foreign currency, and commitments and contingencies.

Comiskey and Mulford [1991] concluded that Danish companies used accounting standards that were at odds with ED 32 in four key areas. These were, changes in accounting policy, contract accounting, accounting for foreign currency changes, and goodwill. A general lack of disclosure of accounting policies were observed in many key areas. These were research and development expenditures, interest capitalisation, pensions costs, accounting for business combinations and foreign currency accounting for subsidiaries operating in hyperinflationary economies or formed an integral part of the parent.

Purvis, Gernon and Diamond [1991] assessed national compliance with existing 25 International Accounting Standards, the likely compliance with ED 32 and the prerequisites for the success of the IASC's proposal for international accounting comparability. The study analysed compliance with existing IASs in the 54 member countries of IASC and possible compliance of five major countries with developed capital markets, namely, Canada, France, Japan, UK and US, with ED 32. The authors used unanalysed survey data on company practices compiled by the IASC in its fifty-four member countries in 1988. The 54 countries were grouped into three categories: those whose practice was not yet standardised, those whose practice was dependent on IASC and those whose practice was independent of IASC and tested for differences in groups.

Taking the 25 IASs together, different degrees of conformity among countries were established by Purvis, Gernon and Diamond [1991]. While compliance rates for some countries were 90% or more, others scored less than 50%. The mean conformity score was 76.3%. Significant differences were observed among the three groups which revealed that the greater the dependency on IASs the greater the conformity with them. As a group, the IASC founders demonstrated an average compliance that was practically worse than non-founders. An association between observance of IASs and the level of development of capital markets was established. A number of areas where prevailing domestic practice of the five countries would not conform with ED 32 were also found.

In a study of Botswana and Zimbabwe, Chamisa [1994] investigated the promotion of IASC standards by professional accounting institutes and the relationship between ownership and the nature of business and the extent of observance of IASC standards. The level of harmony in accounting practices inherent in IAS 2 'Inventories', 1AS 9 Research and Development Costs', IAS 11 'Construction Contracts', and IAS 22 'Goodwill' which were included in ED32 was also evaluated in Zimbabwe. The author used questionnaires, interviews and analysed documents as appropriate in his investigations. Based on IASs 1-22 an index of compliance representing 52 disclosure and measurement requirements was developed. The annual reports for 1975, 1980, 1985 and 1990 for a sample of 47 companies comprising 40 for Zimbabwe and 7 for Botswana were analysed.

Chamisa [1994] found that the existence of capital markets and dominance of the private sector, among others, in Zimbabwe and Botswana made

IASC standards relevant. The professional accounting bodies in the two countries had issued IASs for local application. A majority of listed companies in Botswana (71%) and Zimbabwe (58%) were noted to be observing IASC standards. The rate of observance of IASs increased from 30% to 57% in Zimbabwe and from 12% to 42% in Botswana from 1975 to 1990. While type of ownership did not significantly affect observance of IASs, the industry sector of a company did. With the exception of goodwill, the H indices revealed that the alternative methods proposed for elimination in ED 32 had either not been followed by any company or at best by a very small and declining minority in Zimbabwe.

Al-Basteki [1995] examined the extent to which external auditors, industry, firm size, degree of foreign operations and credit providers were associated with voluntary adoption of IASC standards by publicly-traded corporations in Bahrain. Annual reports of twenty-six out of the 30 publicly traded corporations in Bahrain were surveyed. It was found that a majority (approximately 58%) of Bahraini publicly-traded corporations had voluntarily adopted IASC standards.

Al-Basteki [1995] found that the number of companies adopting IASC standards voluntarily increased over the period 1982-1991. A positive association between voluntary adoption of IASC standards and external auditors and industry type was established. Evidence in support of a possible influence of firm size, extent of foreign operations or credit providers on the adoption of IASC standards by Bahraini Corporations was not found. The study relied on auditors' reports in the annual reports to identify "adopters" and "non-adopters" of IASC standards which was used as a measure of observance. This approach did not reveal the extent of observance of IASs by even the "adopters" and could have presented a wrong picture.

Roberts, Salter and Kantor [1996] ascertained the extent to which companies in the EU complied with standards outlined in the IASC's *Comparability Project,* differences between the *Comparability Project* and the EU Fourth and Seventh Directives and the degree to which EU members differed from IASC members in practices in the areas covered by the *Comparability Project.* Questionnaires were administered to partners of major international public accounting firms in all 78 IASC member countries. A useable sample of 295 completed questionnaires from 55 countries were obtained of which 73 were from nine EU countries.

Roberts et al. [1996] found that the overall compliance rate with the IASC recommendations was high though considerable diversity in practice existed within the EU. It was observed that some countries would find it considerably more difficult to comply with the IASC recommendations than others. The UK and France obtained higher compliance rates than Germany and Portugal suggesting fewer problems with compliance for the former two than the latter two. Regarding the extent to which EU practices were congruent with IASC standards, it was found that the harmonisation attempts by the EU appeared not to have had any influence. It was only in four of the EU countries studied that significant differences in compliance rates between those areas covered by the Fourth and Seventh Directives and those not covered by the Directives were found. In three of the four countries, however, there was less agreement with IASC's revised standards in those areas covered by the two EU Directives than those left out of the Directives. Between the EU and the Rest of the World, few significant differences were obtained.

Glaum and Mandler [1996] surveyed the opinions of senior finance managers of large companies and university professors in Germany about the introduction of US accounting rules in Germany, the extent to which German accounting regulations were obstacles to international demand for German stocks, the usefulness of financial statements prepared under German accounting rules compared with those prepared under US-GAAP and the option for international harmonisation. A questionnaire was distributed to 80 corporate executives and 66 university professors of which 63 (78.8%) and 43 (65.2%) respectively answered giving their opinions on a four-point scale. Differences between the German Commercial Code, "Handlesgesetzbuch" (HGB), and US-GAAP were tested on 13 accounting issues.

Glaum and Mandler [1996] found that the professors were more supportive of the adoption of US-GAAP in Germany than the corporate managers. The professors were also more critical than the corporate managers in saying that the information value of German financial statements is inferior to the information value of US financial statements. The need for a change in German accounting regulations, as currently laid down in the HGB, was opined by a majority of managers (72%) and professors (90%). The professors and mangers gave greater support for the adoption of IASs than US-GAAP though they both agreed that "the US accounting system is sooner or later going to become the predominant global accounting standard" [Glaum and Mandler, 1996: 235].

6.3. HARMONISATION MEASUREMENT STUDIES

The studies reported in section 6.2 ascertained compliance or conformity of practices with international accounting standards but not comparability of accounting measurement methods. The first attempt to determine rigorously the degree of harmonisation in accounting practices was made by van der Tas [1988]. He developed three quantitative measures of harmonisation, namely, the H index, C index and I index and subsequently used them to evaluate the degree of harmonisation in the UK, the Netherlands and USA.

van der Tas [1988] found a spontaneous harmonisation for the presentation of deferred tax from 1968-1978. The draft guideline issued by the Dutch Council for Annual Reporting had a slight impact on the degree of harmony in accounting for Investment Tax Credit (WIR) in the Netherlands. Harmonisation of accounting for Investment Tax Credit (ITC) in the USA rose during the period investigated for reasons other than the introduction of regulation. A slight increase in harmony occurred spontaneously in respect of WIR equalisation accounting from 1978-1983, with a significant increase in 1984 being motivated by new legislation in the Netherlands. An increase in the harmonisation of the methods of valuation of land and buildings in the Netherlands was occasioned by compliance with the new Title 8 of the Dutch Civil Code. Finally, a low and decreased level of harmonisation in the treatment of the ITC was found between the USA and the Netherlands over the period 1978-1984.

Tay [1989] examined the impact of EC regulation and IASC standards on harmonisation and disclosure in the EU and ASEAN regions respectively. The EU countries studied were the UK and the Netherlands. Malaysia, Singapore and Thailand were the ASEAN countries studied. Accounting measurement and disclosure issues examined related to fixed assets, lease and hire purchase contracts, intangible assets (patents, trade marks, and research and development costs) stocks and work-in-progress, pension costs, taxation and group accounts. Annual reports of 32 UK and 22 Dutch industrial companies and 16 companies each in Thailand, Malaysia and Singapore were analysed.

Tay [1989] found that the implementation of the requirements of the Fourth Directive did not have a measurable impact on the comparability of financial reports and disclosure in the UK and the Netherlands, individually and as a group. IASC standards had some impact on disclosure but not accounting measurement practices in the ASEAN region. Statistically, the levels of disclosure in Singapore and Malaysia were similar but significantly greater than Thailand. Thailand had the highest level of harmony, followed by Malaysia and Singapore in that order but differences were not statistically significant. A comparison between EC and ASEAN groups did not reveal any significant differences in disclosure levels except for earnings per share and lease accounting. On the whole, the researcher judged the average disclosure level as low and established also a lack of compliance with mandatory requirements in all the countries studied. The areas with the highest levels of comparability were earnings per share, funds statements and fixed assets with mean C values of 73%, 69%, and 59% respectively. The lowest areas of comparability were intangible assets and R&D, lease accounting, stock and pension with mean C scores of 24%, 24%, 25%, and 30% respectively.

The impact of the EC harmonisation efforts was tested in respect of deferred taxation by van der Tas [1992a]. He measured the degree of harmonisation of deferred taxation over the period 1978-1988 of 154 non-randomly selected listed companies in nine EC member countries that implemented the Fourth EC Directive on Company Law before 1989. The analysis was done separately for the individual and consolidated accounts.

van der Tas [1992] identified nine methods of accounting for deferred taxation in the nine EU countries. The degree of harmony of the individual and the consolidated accounts, ignoring reconciliation data in the notes to the accounts, was found to be low. Harmony of the individual accounts did not show significant movements with C index ranging between 0.333 in 1978 and 0.327 in 1988. Harmony of the consolidated accounts, however, increased gradually during the period, with C-index increasing from 0.268 in 1978 to 0.390 in 1988. Taking into account reconciliation notes in the accounts, harmony in both the individual and consolidated accounts increased sharply in the period: The C index increased from 0.476 to 0.869 in 1978 to 1988 in respect of the individual accounts and from 0.456 to 0.749 over the same period for the consolidated accounts. In effect, the impact of reconciliation data on harmony was positive. The impact of the Fourth EC Directive on harmonisation of methods of accounting for deferred taxation was significant for the individual accounts (R^2 = 0.95, R^2 adjusted = 0.944, and correlation coefficient = 0.4, significant at the 0.0005 level) but not significant for the consolidated accounts.

Emenyonu and Gray [1992] investigated the extent of differences in asset and profit measurement practices in large companies in three major EC countries, namely, France, Germany, and the UK, and the overall extent of national accounting harmony or uniformity across the three countries as at the end of 1989. Six key asset and profit measurement issues were examined. These were: stock valuation, depreciation, goodwill, research and development, valuation bases for fixed assets, and the treatment of extraordinary/exceptional items. The practices of twenty-six large industrial companies from each of the three EC countries contained in their 1989 annual reports were analysed.

Using the Chi-Square test, Emenyonu and Gray [1992] found that apart from research and development costs for which it was not possible to conduct the test, there were statistically significant differences in the measurement practices of large French, German and UK companies. Varying degrees of international harmonisation, measured by I indices, was observed on the issues investigated as follows: depreciation 0.0076 (8%), goodwill 0.2636 (26.4%), stock valuation 0.5481 (54.8%), extraordinary/exceptional items 0.5959 (59.6%) and valuation bases for fixed assets 0.6079 (60.8%). The researchers concluded that there were wide and relatively low degrees of harmonisation across the three countries and that the differences in the practices of countries reflected the flexibility in the measurement provisions of the EC Fourth Directive.

Herrmann and Thomas [1995] extended the Emenyonu and Gray [1992] study by including Belgium, Denmark, Ireland, the Netherlands and Portugal in their study. They also examined foreign currency translation, inventory costing methods and accounting for research and development, fixed asset valuation, depreciation, inventory valuation and goodwill which were not studied by Emenyonu and Gray [1992]. Annual reports for 1992/3 instead of 1989 surveyed by Emenyonu and Gray [1992] were evaluated. A total of 217 annual reports of large listed non-financial companies in the 8 countries comprising between 20-30 for each country were examined. Unlike Emenyonu and Gray [1992], the authors computed bi-country I indices for all pairs of countries and for fairness-oriented and legalistic-oriented countries.

Herrmann and Thomas [1995] found the highest degree of harmonisation in respect of foreign currency translation and inventory valuation. The lower of cost and market value basis was the predominant method used for inventory valuation in the EU. The current rate was the most widely used method to translate assets and liabilities held in foreign currency and the actual/average rate for revenues and expenses. Treatment of translation differences was largely done through reserves. With the exception of a method of combining declining balance and straight-line methods used in Germany, the harmonisation of depreciation accounting was high with the straight-line method as the predominant method in the EU. A low degree of harmonisation and significant differences were observed in accounting for research and development costs, fixed assets, goodwill and inventory costing. The bi-country indices revealed that the UK and Ireland had the most harmonised measurement practices while Portugal and Germany had the least. On a regional basis, the UK, Ireland and France were more harmonised with the rest of the EC countries while Portugal and Germany were the most different. The practices in fairness-oriented countries were also more harmonised than legalistic countries.

Emenyonu and Gray [1996] investigated the extent to which the accounting measurement and associated disclosure practices of major companies based in five countries, namely, France, Germany, Japan, UK and the USA, were more harmonised or less diverse in the context of efforts made by the IASC since the 1970s to reduce or eliminate differences in accounting policies and practices internationally. Assessments were made for key accounting measurement issues and related disclosure in 1971/72 and 1991/92. A total of 293 companies which reported in both 1971/72 and 1991/92 were studied. Forty-six issues comprising 29 accounting policy choices and 17 disclosure items were examined. For each of the accounting measurement practices, I index, was constructed to assess the extent of international accounting harmonisation as at both 1971/72 and 1991/92.

Using the Chi-Square test, Emenyonu and Gray [1996] found significant differences in the accounting measurement and associated disclosure practices adopted by companies from the five countries in aggregate for the period 1971/72 and 1991/92 on 36 out of 46 issues examined. The results suggest that there was substantial support for the viewpoint that there had been significant changes over the period in respect of the accounting measurement and associated disclosure practices of the companies surveyed. Regarding international harmonisation of accounting, however, it was found that the progress in reducing international accounting diversity over the 20-year period had been mixed and, taken overall, quite modest. There was only a 10.8% average increase in international accounting harmonisation over the period: the I-index increased from a moderate level of 0.6230 to only 0.6903. Fourteen items increased, while 12 items decreased, in harmonisation.

Emenyonu and Gray [1996] was based on the doctoral thesis of Emenyonu [1993] which found also that multi-listed and listed companies did not differ significantly in respect of accounting measurement practices though the former group generally made much more significant disclosures than the latter group. In addition, significant national differences in accounting measurement and associated disclosure practices of companies were found by Emenyonu [1993].

Archer, Delvaille and McLeay [1995] developed and used a disclosure-adjusted comparability index for the measurement of harmonisation of deferred tax and goodwill in eight European countries for 1986/87 and 1990/91. Their formula adjusted for non-disclosure or non-applicability of accounting methods which the van der Tas formula does not take into account. The countries studied were Belgium, France, Germany, Ireland, the Netherlands, Sweden, Switzerland and the UK. A sample of 89 companies with international shareholdings from the eight countries were drawn and their annual reports for the two periods analysed.

Archer, Delvaille and McLeay [1995] found five and nine methods of accounting for deferred tax and goodwill respectively. The effective minimum level of comparability of deferred tax methods was 12.17% in 1986/87 and 16.09% in 1990/91. The overall comparability increased from 14.94% in 1986/87 to 21.63% in 1990/91. The increase in the actual comparability index of +6.69 was attributed to greater disclosure (+3.92) and the effects of harmonisation (+2.77). The within-country comparability increased from 37.09% in 1986/87 to 39.91% in 1990/91. Intra-national or between-country comparability, on the other hand, increased substantially from 10.84% to 18.61%. The effective minimum comparability of the methods of accounting for goodwill was 27% in both 1986/87 and 1990/91. A slight increase in the level of comparability occurred between 1986/87 and 1990/91, from 38.33% to 40% which was higher than the effective minimum comparability level of 27%. The between-country comparability index increased from 34.66% in 1986/87 to 37.71% in 1990/91. The within-country comparability index, however, fell from 58.1% to 53.92% over the period.

Murphy [1996] investigated the level and the factors which explained changes in the level of harmony between selected accounting practices used by non-financial companies over a nine year period, 1985-1993, in ten countries using adjusted-I index. The countries were: Sweden, the Netherlands, Italy, France, Germany Australia, Canada, Japan, UK and the USA. The accounting practices examined were methods of depreciation, methods for assigning cost to inventory, cost basis for preparation of financial statements as related to valuation of property, plant and equipment and presentation of consolidated statements. Factors whose impact on harmonisation were considered were inflation, taxation, listing, long-term debt, subsidiary locations and size.

The straight-line depreciation method was found by Murphy [1996] to be the most preferred method among eight methods of depreciation identified with a majority (57.5%) of companies using it. Eleven inventory methods were found to be in use in the ten countries. Companies showed preference for a limited number of inventory methods indicating existence of a certain level of harmony. "Mixed methods" with a usage rate of 44.4% was the most popular option followed by FIFO (26.1%). Six financial statement cost bases were used for which diversity in practices prevailed among countries. Six approaches to consolidation were also observed but harmony in the practices among countries prevailed over the nine-year period with a majority (73.6%) of companies consolidating all subsidiaries. Using univariate and multivariate statistical analysis, the author found that none of the environmental variables was significant in determining a company's choice of inventory cost method. However, inflation, tax and size of companies had were noted to have had a significant impact on harmonisation.

6.4 CONCLUSION

The review in this chapter points to the fact that harmonisation measurement research has a very recent origin. Moreover, the studies have mainly been based on developed capital markets except for the international surveys which have covered a large number of ECMs. A few country studies dealing with international accounting harmonisation in ECMs have been undertaken by Ndzingbe [1990] and Chamisa [1994] in Africa and Tay [1989] in Asia. The only cross-national study which specifically mentioned Ghana in the results was Purvis et al. [1991]. However, the Purvis et al. [1991] study was based on the opinions of a few respondents in international accounting firms in Ghana and did not analyse practices in the annual reports of companies. Moreover, the focus of research has been on the measurement of international harmonisation. It is against this background that this study attempts to measure the degree of domestic comparability of financial statements and harmonisation of practices with IASC standards in Ghana. The next chapter will review prior empirical disclosure studies in capital markets.

CHAPTER VII

REVIEW OF PRIOR EMPIRICAL DISCLOSURE STUDIES IN CAPITAL MARKETS

7.1 INTRODUCTION

Prior disclosure studies have investigated disclosure media, users' information needs, costs and benefits of disclosure and quality or adequacy of disclosure in capital market and non-capital market contexts. In view of the capital market focus of this study, this review will be limited to mainly studies undertaken in capital markets. The review here has been organised under three main headings. The first, discussed under section 7.2, deals with studies undertaken in the developed capital. The second covered in section 7.3 focuses on studies in ECMs. Section 7.4 deals with the third strand which covers comparative studies and studies in the developed capital markets and ECMs. Conclusions are offered in section 7.5.

7.2. DISCLOSURE STUDIES IN DEVELOPED CAPITAL MARKETS

A pioneering study applying the scientific method to the evaluation of corporate disclosure was undertaken by Cerf [1961]. He assessed the extent of disclosure in the annual reports of 527 US companies comprising those listed on the New York Stock Exchange (NYSE) and those traded in the Over-the-Counter (OTC) market. Cerf also evaluated the degree of association between three corporate characteristics, namely, size, number of shareholders and rate of return, and the extent of disclosure. A disclosure index comprising 31 items of information whose importance had been judged by security analysts in the USA was used. Using class means, the author found a positive association between size measured by assets, number of shareholders and the rate of return and extent of disclosure.

Singhvi and Desai [1971] sought to improve and extend the Cerf [1961] study by considering more variables and applying rigorous statistical techniques using data contained in the doctoral dissertation of Singhvi [1967]. The authors investigated the extent of disclosure in the annual reports of companies and its relationship with profitability, corporate size, listing status, auditor, type of management and financial position as well as the impact of poor disclosure on securities prices in the USA. The study involved analysis of the 1965/66 annual reports of 100 listed and 55 unlisted companies in the USA. A list of information items was developed against which actual disclosure in the annual reports was evaluated using weighted disclosure indices. Chi-Square and a step-wise least-square regression techniques were used to analyse the data. The authors found all the six variables to be significant (p=0.01) with listing status providing 87% of the explanatory power.

Choi [1973b] also examined the relationship between disclosure in annual reports and entry into an international capital market by international borrowers. A sample of 36 non-financial companies from eleven countries (excluding the USA and UK) was studied. The sample comprised 18 companies which used the Euro-capital market to make new capital issues and a matched group of 18 companies which did not. The study covered three years before (1968-1970) and a year after (1971) entry into the Euro-capital market. A disclosure index comprising 36 items of information deemed relevant to investment decisions was used. Based on disclosure in the annual reports, unweighted and weighted scores of the quantity of disclosure for each company were computed for each year. Using the Wilcoxon matched-pair signed-ranks test, Choi [1973b] found that companies which entered the Euro-capital market disclosed significantly more information than those which did not.

Moore and Buzby [1972] have criticised the work of Singhvi and Desai [1971] from three standpoints being: the lack of detail on assigning point scores, the strict application of the dichotomous scoring procedure and the failure to assess the multcollinearilty between the independent variables. The criticism of Moore and Buzby can also be extended to Cerf [1961]. Subsequently, Buzby [1974, 1975] sought to improve on the Singhvi and Desai [1971] study by controlling for the multi-collinearity between the independent variables by using matched samples.

In his 1974 study, Buzby studied the importance of specified information items to professional financial analysts and the extent of disclosure in corporate annual reports in the USA. A list of 39 information items was developed and the importance of each item was rated by professional financial analysts in the USA. Eighty-eight companies comprising 44 companies listed on the NYSE and AMEX and a matched-pair of 44 companies whose shares were traded on the Over-The-Counter (OTC) market were studied. Using the weighted mean scores of importance of the information items, the author computed the quantity of disclosure in percentage terms for each of the 88 sampled companies, which turned out to be low. It was found that, generally, information rated as important by financial analysts such as segmented sales and profit, forecasts and 5-10 years historical summary was not adequately disclosed in the annual reports.

Buzby [1975] examined the association between the extent of corporate disclosure and two firm characteristics, namely, size measured by assets and listing status. Contrary to the earlier findings of Singhvi and Desai [1971], the results of Wilcoxon matched-pairs signed-ranks test used by Buzby did not reveal significant differences between the quantity of disclosure by the listed and unlisted companies. A moderate association between the level of disclosure and size, measured in terms of assets, was observed using Kendall rank correlation coefficient test.

Barrett [1976] sought to extend the earlier works reported above by undertaking a longitudinal study into the extent of financial disclosure in an international setting for a ten year period, 1963-1972. Seven countries, namely, UK, USA, Japan, France, Germany, Sweden and the Netherlands were studied. Barrett measured the overall extent and quality of financial disclosure of 17 information items and comprehensiveness of financial statements of non-financial companies in the seven countries using unweighted and weighted disclosure indexes.

Barrett [1976] found that the overall level of disclosure improved steadily from 1963 to 1972 . A wide variance between the overall level of disclosure of US and UK companies, on one hand, and those from the other five countries, on the other, was observed. Financial statements of US and UK companies were more comprehensive than those of the companies in the other five countries. On the whole, the French companies recorded the least disclosure and comprehensive financial statements. He found a positive relationship between the quality of financial disclosure and the degree of efficiency of national equity markets. However, the study by Barrett lacked statistical rigor.

As an extension of his 1976 study, Barrett [1977] did a comparative analysis of the overall disclosure and the disclosure of segmented information and current and planned capital expenditure in the seven countries. US and UK companies were found to have recorded better average disclosures than companies from the other countries. The US companies in the sample were, however, not leaders in disclosing segmented and capital expenditure information as they trailed British and Swedish companies, with Japanese companies recording the least disclosure level. As in the 1976 study, the researcher established a positive relationship between the quality of disclosure and the degree of efficiency of national equity markets.

Firth [1979a] examined the degree of disclosure in annual reports of British stock-exchange quoted companies. A list of 48 information items was constructed whose importance was weighted by practising financial analysts. The 1976 annual reports of 100 stock-exchange quoted manufacturing companies were analysed.

Firth [1979a] found segmented information to be the most important and historical share price information the least important to the financial analysts. Historical accounting data received fairly high importance weighting, while forecast data were judged to be moderately important. Inflation-adjusted annual accounts as supplementary statements received a fairly high score. On the whole, companies exhibited low disclosure levels. The British companies were found to be concerned with disclosing information required under the British Companies Acts of 1948 and 1967 and the Statements of Standard Accounting Practice published by the Accounting Standards Committee.

Firth [1979b] extended his 1979a study by examining the impact of size, listing status and auditors on voluntary disclosure in annual reports of UK companies. The importance ratings of the financial analysts in Firth [1979a] was used. However, a sample of 180 listed and unlisted companies was studied as against 100 in the earlier study. Using the standard *t*-test and the Wilcoxon matched-pairs signed-ranks test, he found that listing status was positively associated with disclosure but not auditors. The Kendall's rank correlation coefficient test revealed a significant positive association between capital employed and size, measured by sales turnover, and voluntary disclosure.

McNally, Eng and Hasseldine [1982] studied the quality of discretionary disclosure of financial and non-financial information by manufacturing companies and its association with size (total assets), rate of return (net incomes/total assets), growth in assets, industry and auditors in New Zealand. Financial editors and stock exchange members in New Zealand were surveyed, using questionnaires, to derive the importance rating of 41 discretionary information items. The average scores of the two user groups served as the weights of importance of each item of information disclosed. The 1979 published accounts of 103 manufacturing companies were examined to establish the degree of unweighted and weighted disclosure for each item of information. The researchers found that the level of actual disclosure by companies, particularly, forecast information, was lower than perceived to be desirable by the professional external users. The results of multiple regression analysis revealed a positive association between size and disclosure but not rate of return, growth, industry and auditor.

In another study of New Zealand, Hossain, Perera and Rahman [1995] examined the relationship between the level of voluntary disclosure and firm size, leverage, assets-in-place, type of auditor and foreign listing in

New Zealand. The study involved a sample of 55 non-financial companies which were listed on the New Zealand Stock Exchange as at 31 December, 1991 of which 15 were multi-listed. Following a similar procedure used in Hossain et al. [1994], a disclosure checklist comprising 95 discretionary items was compiled, against which the 1991 annual reports of the sample companies were analysed to establish the level of disclosure, and an unweighted disclosure index was obtained for each company.

Hossain et al. [1995] found that voluntary disclosure varied from 2% to 55% with a mean of only 18%. The results of the OLS multiple regression model used to analyse the data showed a highly significant $p < 0.001$ which explained 68.2% of the association between disclosure and the firm characteristics studied. The coefficients for firm size and foreign listing were highly significant $p < 0.001$ and $p < 0.05$ respectively while the coefficient for leverage was marginally significant $p < 0.10$. In contrast, the coefficients for assets-in-place and the type of auditor were not statistically significant. The multiple regression results suggested that firm size, leverage and listing were statistically related to the level of information voluntarily disclosed by New Zealand companies in published annual reports. While the findings indicated further that multilisting leads to increased disclosure, the effect of the large auditing firm in generating more disclosure was not supported.

An investigation into the impact of corporate size, profitability, industry type and the presence of social responsibility committee in a company on seven categories of social responsibility disclosures in the USA was conducted by Cowen, Ferreri and Parker [1987]. The categories of social responsibility disclosures examined were the environment, energy, fair business practice, human resources, community involvement, products and others comprising issues such as general disclosures of social goals, receipts of awards for corporate social responsibility etc. The study involved 134 US companies drawn from 10 industries and data on their social responsibility disclosures reported in Ernst and Whinney's 1978 survey. Using multiple regression analysis, Cowen et al. [1987] found that corporate size had a significant impact on all the categories of social responsibility disclosures except human resources and products. Industry was found to have a significant influence on energy and community involvement disclosures, but not disclosures of other categories of information. The presence of social responsibility committees influenced significantly human resource disclosures but not the other categories of social disclosures.

Meek and Gray [1989] examined the extent to which Continental European companies listed on the London Stock Exchange (LSE) complied with and exceeded the disclosure requirements relating to annual reports of the Exchange. The 1985 annual reports of 28 non-financial companies from four countries comprising Sweden (14), the Netherlands (7), Germany (4) and France (3) listed on the LSE as of 31 December, 1986 were studied. Using an unweighted disclosure scoring approach, the disclosure scores for companies, individual items and categories of information was derived.

Meek and Gray [1989] found that disclosures of segment information by companies from all the four countries exceeded LSE requirements with Swedish companies as the leaders. Apart from the Netherlands where minimal disclosures were made, changing price data were not disclosed in any of the countries studied. About 50% of the companies surveyed disclosed value added information. Swedish and Dutch firms provided forecast information whereas the German and French firms did not. Contrary to the expectations of the researchers, a majority of 73% companies made substantial disclosures of research and development information. French companies were leaders in the disclosure of employee information which was traced to the requirements of the *Bilan Social* in France. Disclosures relating to transfer pricing and related party transactions were minimal and generally vaguely worded with Dutch firms as leaders. Unlike the Swedish, Dutch and French companies where none of them disclosed social information, the German companies provided extensive social reporting, with environmental protection receiving special attention. Historical summaries for 5 or more years were disclosed in all countries. On the whole, the companies from the four countries exceeded the 'standard' practices of British MNCs while national characteristics in disclosure were observed.

Cooke [1989a] studied the relationship between disclosure in annual reports of companies and listing status, size and parent company relationship in Sweden. His sample consisted of 90 companies, comprising 38 unlisted, 33 listed solely on the Swedish Stock Exchange (SSE) and 19 listed on the SSE with at least one other foreign quotation. A disclosure checklist of 224 mandatory and non-mandatory information items was used against which an unweighted disclosure in the 1985 annual reports of the sample companies was determined. The results of a stepwise regression analysis revealed that size and listing status were important factors in explaining the extent of disclosure, but not the parent company relationship. All the three variables of size used, namely, total assets, sales and number of shareholders, gave similar results. Listed companies were observed to disclose more information than unlisted companies. However, the multiple listed companies disclosed more information than the companies listed on only the domestic stock exchange. The number of subsidiaries and type of company were not found to be influential on disclosure.

As a further study of Sweden, Cooke [1989b] investigated the extent of voluntary corporate disclosure and its association with listing status, size, parent company relationship and industry type. He used the same data base and methodology as in his 1989a study but this time his disclosure checklist comprised 146 voluntary items. He found that voluntary disclosure of companies varied between 13%-70%. Quotation status was found to be the most important overall variable providing 90% of the explanatory power of significant independent variables. Among listed companies, the multiple listed companies disclosed more information than the domestic listed companies. Size and industry effect were significant explanatory variables on voluntary disclosure in Sweden. The number of subsidiaries and the fact that a company is a subsidiary of a foreign parent were not significant in explaining voluntary corporate disclosure in Swedish annual reports.

Cooke [1991, 1992, 1996] provides further evidence of the factors which have influenced disclosure in his studies of Japan. He studied the impact of size, listing status and industry type on voluntary disclosure in annual reports of listed and unlisted Japanese companies [Cooke, 1991]. Annual reports of companies compiled under the Japanese Commercial Code, Security and Exchange Legislation, and their English versions, were taken as one set of disclosure media which was analysed to establish the level of disclosure of 46 items of voluntary information by companies. Forty-eight companies were studied. The sample comprised 13 unlisted companies, 25 companies listed on only the Tokyo Stock Exchange (TSE) and 10 companies listed on the TSE and at least one foreign stock exchange. The quality of disclosure of each company was determined using an unweighted score.

Using one way ANOVA and multiple linear regression, Cooke [1991] found that size, industry and listing status were significant explanatory variables for voluntary disclosure with size being the most important. Internationally multilisted companies disclosed more information than companies listed on only the domestic stock exchanges.

In a further study of Japan, Cooke [1992] investigated the extent of financial disclosure and association with size, stock market listing and industry type. This study involved an evaluation of the extent of disclosure of 165 mandated and voluntary information items in the 1988 annual reports of 35 companies listed on the TSE using an unweighted disclosure index.

Cooke [1992] found a lack of compliance with mandatory requirements in Japan with scores ranging from 88% to 100%. Voluntary disclosure was, however, lower than mandatory disclosure with scores ranging between 7% and 41% per item of information. The results of multiple linear regression analysis revealed that multiple listed corporations disclosed more information in their Japanese annual reports than corporations listed only on the TSE. Size and industry category were also found to be important influences on voluntary disclosure.

In another study of Japan, Cooke (1996) examined the influence of group interfirm relationships, otherwise known as *keiretsu*, on corporate disclosure. Using unweighted disclosure indices, Cooke [1996] analysed the disclosure of 165 mandatory and voluntary information items in the 1988 annual reports of 35 Japanese listed companies listed. An item-by-item scrutiny of the 165 items of disclosure did not reveal any systematic pattern between *keiretsu* and non-*keiretsu* firms. Although the companies in the *keiretsu* disclosed less information than non-*keiretsu* companies, from the results of multiple regression analysis, the difference was not significant at the 5% level. Cooke [1996] argued that this finding is due to existence of monitoring mechanisms in both *keiretsu* and non-*keiretsu* companies which place approximately equal demands on information disclosure in annual reports. Depending on the *keiretsu* classification, the study also revealed a significant influence of multilisting, size, industry type and gearing on disclosure in Japan.

Tai, Au-Yeung, Kwook, and Lau [1990] investigated the relationship between the nature of business, size and auditor type and non-compliance with accounting requirements in Hong Kong. The study involved analysis of compliance with the accounting requirements required by the Companies Ordinance, the SSAPs of the Hong Kong Soceity of Accountants and the Securities (Stock Exchange Listing) Rules, 1986 in the 1986/87 annual reports of 76 companies listed on the Hong Kong Stock Exchange. Interviews with five financial controllers and seven auditors of the companies studied were also conducted to ascertain the causes of non-compliance.

Tai et al. [1990] found the average non-compliance rate for all the companies to be 22%. The highest non-compliance rate was 49% and related to depreciation, while the lowest was 4% for extraordinary items and prior-year adjustments. The Friedman two-way ANOVA test revealed that smaller and larger firms had significantly less non-compliance than medium-size companies. No relationship between business sector nor auditor type and non-compliance was found. The main causes of non-compliance were identified as difficulties in interpreting the disclosure requirements and auditing guidelines, insufficient awareness of general accounting concepts, lack of proficiency of staff, window dressing of company operational results and financial position by management, and lack of resources to keep abreast with the changes in disclosure requirements.

The level of social disclosure in twelve EU countries was the subject of study by Freedman and Stagliano [1992]. Thirty-three annual reports of companies, mainly in the manufacturing sector (except for three banks from Luxembourg), were examined from which an unweighted disclosure index was developed for each of the issues studied. Social issues covered in the investigation were community involvement, environmental protection, consumer relations, human resources, energy conservation, product safety, and occupational health and safety.

Freedman and Stagliano [1992] found that the companies surveyed made disclosures on four of the areas specified in descending order of scope and quantity as follows: human resources, occupational safety, pollution and health community involvement. National differences among countries were found but were not tested for statistical significance. In descending order of magnitude of disclosure, companies from France, Germany, the Netherlands and the UK did better than those from the other countries. The companies from Denmark, Ireland and Luxembourg did not disclose any social information. The UK was found to be the leader in disclosures concerning community involvement which was attributed to the existence of regulation. Similarly, France provided the best human resource disclosures. Germany was the leader in the disclosure of pollution information. The results of the study, however, have to be viewed with caution in view of the very small sample drawn from each country and the lack of rigorous statistical analysis.

Gray, Meek and Roberts [1995] investigated whether internationally listed US and UK MNCs voluntarily disclosed more information in their annual reports than UK and US MNCs listed only on their respective domestic stock markets. The study involved analysis of the 1989 annual reports of 58 US and 32 UK internationally listed MNCs, and an equal number of domestically listed MNCs. A disclosure checklist consisting of 128 items of information grouped into three broad categories, namely, strategic information, non-financial information and financial information was used. An unweighted disclosure score was derived for each of the sample companies.

Using Analysis of Variance (ANOVA), the authors found that US internationally listed companies disclosed significantly more strategic and non-financial information than US domestic listed MNCs. For the UK, no difference in the level of voluntary disclosure was observed between internationally listed and domestic listed MNCs. National influences were significant in voluntary disclosures by domestic listed and internationally listed companies. Some moderating influence of international capital market pressures on domestic reporting practices was found. Both capital market pressures and national factors were observed to have influenced voluntary disclosure with their relative importance varying across type of information. The international listing factor was important in explaining strategic information disclosures while the country factor was the main influence on disclosure of non-financial information.

Meek, Roberts and Gray [1995] examined the effect of listing, size, country/region of origin, industry, leverage, multinationality and profitability of company on voluntary disclosure in the annual reports of US, UK, and continental European MNCs. The 1989 annual reports of 116 US, 64 UK and 46 continental European MNCs from France, Germany and the Netherlands were analysed. These samples consisted of an equal number of both internationally listed and domestic (only) listed MNCs. A voluntary disclosure checklist consisting of 85 items of information was prepared. The information items were broadly classified as in Gray et al.[1995].

Using regression analysis, Meek et al.[1995] found significant differences in voluntary disclosure on an overall basis, and by information type, across countries. Of the variables investigated, company size, country/region, and international listing status were the most important variables explaining the voluntary disclosures of companies. Listing was important in explaining strategic and financial, but not non-financial disclosures. Industry influence on non-financial and financial disclosures, but not strategic information, was observed with oil, chemical and mining companies disclosing more non-financial information, especially items related to the environment. On an overall basis, multinationality, leverage and profitability were not significant in influencing voluntary disclosures. Some weak significance was noted, however, for multinationality within the non-financial and financial information subgroups. While the more multinational MNCs disclosed more financial information as would be expected, the less multinational MNCs surprisingly disclosed more non-financial information.

Wallace, Naser and Mora [1994] investigated the level of disclosure in annual reports and its association with corporate size, gearing, liquidity, earnings return, profit margin, industry type, listing status and auditor type in Spain. A disclosure checklist comprising 16 mandatory items was developed against which the annual reports of the sampled companies were evaluated. The disclosure checklist was constructed at a high level of disaggregation to ensure comprehensiveness and to reward the depth of information provided in the annual reports. Using an unweighted scoring system, an index of disclosure was calculated for each company in the sample. The 1991 annual reports of a sample of 50 non-financial companies comprising 30 listed on both the Madrid and Valencia stock exchanges and 20 unlisted companies were analysed.

Wallace et al. [1994] found that the disclosure indexes of the sample companies ranged from 29% to 80%. Reduced and ranked OLS regression models revealed a significant positive association between firm size and listing status. The association between disclosure and liquidity was significantly negative. The remaining five firm characteristics were found not to be associated significantly with disclosure.

Raffournier [1995] studied the association between voluntary financial disclosure and size, internationality of operations, total fixed assets, size of auditing firms, industry type, profitability, leverage and ownership diffusion of a sample of 161 manufacturing Swiss listed companies. Based on the Fourth and Seventh Directives of the EU, a list of 29 voluntary information items was compiled against which annual reports of the sample companies were analysed to establish their disclosure. An unweighted disclosure index indicating the quantity of disclosure was obtained for each company. Uni-variate and multi-variate regression analysis revealed the strongest relationship between the extent of voluntary disclosure and size and the internationality level of the firm, followed by percentage of fixed assets, size of auditing firms and, to a smaller extent, industry type and profitability. The influence of leverage and ownership diffusion on disclosure was found to be rather minimal.

Neu, Warsame and Pedwell [1998] investigated the influence of external pressure on environmental disclosures in annual reports, amount and types of strategies used in disclosure, the characteristics of environmental disclosure *vis-à-vis* other social disclosures, and the association between environmental disclosures and actual performance in annual reports in Canada. The study involved a content analysis of the 1982-1992 annual reports of 33 Canadian corporations which were drawn from environmentally sensitive industries in the chemical, minerals extraction, oil and gas and forestry sectors. Five proxies for environmental pressures were used. These were financial stakeholders concerns measured by profit and leverage (debt/equity), regulatory challenges measured by fines imposed on organizations for misbehaviour reported in the media, criticisms of environmentalists as appearing in articles, societal concerns represented by the number of articles pertaining to the environment that appeared in Canadian newspapers and periodicals during the year, and other social disclosures e.g. employment practices, health and safety etc.

Using the pooling multiple regression model, Neu et al. [1998] found the concerns of shareholders measured by profit to be associated with increased levels of environmental disclosures during unprofitable years (co-efficient = -51.29). The concerns of creditors did not have an appreciable influence on the amount of environmental disclosure. Criticisms from regulators and environmentalists were associated with the level of environmental disclosure, although in opposing directions. The amount of media coverage given to environmental fines was associated with increased levels of environmental disclosure. The amount of media coverage of environmental criticisms was, however, associated with decreased levels of environment disclosure. Environmental disclosures were sensitive not only to the concerns of relevant publics but also of the general public. Finally, larger firms tended to provide more environmental disclosures than smaller firms.

7.3 DISCLOSURE STUDIES IN EMERGING CAPITAL MARKETS

Firer and Meth's [1986] compared the information needs of South African and UK investors and measured actual disclosure in annual reports in South Africa. Using a questionnaire, the researchers surveyed the importance that investment analysts and financial directors attached to the disclosure of each of 49 items of unregulated information in annual reports in South Africa. The weighted average scores of the investment analysts were used in computing the quality of disclosure in the 1979-1983 annual reports of thirty-six companies listed on the Johannesburg Stock Exchange.

Firer and Meth [1986] found a higher level of agreement between financial directors and investment analysts on more important information items than less important ones. A limited positive relationship between the information needs of South African and UK investors was observed which was explained to have arisen from the timing of the two studies and the different social, political and economic environments of the two countries. Historical data and descriptive material such as major industry trends dominated the high disclosure items. Future oriented information was generally poorly disclosed while future cashflow projections, details of expenses or breakdown between fixed and variable costs, market value of inventory or indications of cost of goods sold were not disclosed by any company. The overall level of disclosure of the companies studied was low and did not largely meet the needs of investors. There was, however, a general improvement in disclosure from 1979-1983. Thirty companies improved their level of disclosure whereas six showed a reduction with consistency in annual changes over the five years.

Chow and Wong-Boren [1987] investigated the extent of voluntary financial disclosure practices and the influence of firm size, assets in place and leverage on it in Mexico. Eighty-nine financial disclosure items were identified, out of which 24 were voluntary items which were common to 52 manufacturing companies listed on the Mexican Stock Exchange were studied. The importance of the 89 information items in the evaluation of an average loan application was rated by 106 loan officers of 16 Mexican banks on a seven-point Likert-scale. In analysing the 1982 annual reports of the sample companies, the extent of voluntary financial disclosures of the companies was operationalised with two alternative disclosure scores, unweighted and weighted average scores. The researchers found that voluntary disclosure was low and varied widely among companies. Lack of compliance with accounting regulations was also observed. Using multiple regression analysis, the extent of disclosure was found to be significantly and positively related to firm size but not to financial leverage and assets in place.

Wallace [1988a] ascertained the relevance of disclosure of specified information items in annual reports by assessing the perceptions of users and the extent and scope of information disclosure in annual reports of companies listed in the Nigerian Stock Exchange (NSE). Using a questionnaire survey, the importance of 185 information items to six user groups was investigated. The user groups were professional accountants, financial analysts, civil servants, investors, company managers and other professionals. Mean scores denoting the level of importance for each item of information were computed for each user group. The extent of disclosure in annual reports of companies was measured by weighted and unweighted indexes. Annual reports for 1982-1986 of a sample of 47 companies listed on the NSE were analysed.

Wallace [1988a] found a high level of disclosure for balance sheet items, historical survey items and valuation methods which were required by the Nigerian Companies Act and the NSE. There was an apparent weakness in disclosure of projections, social information, statistical data and income data which were unregulated. Companies did not comply fully with disclosure requirements which was attributed to inadequate monitoring and enforcement by the NSE. Overall disclosure increased from 39.75% in 1982 to 43.11% in 1984 but declined to 37.55% in 1986. Information disclosed in annual reports of companies was, in respect of some items, not in line with the perceived needs of important user groups.

The findings of the Wallace [1988a] study were based on his doctoral thesis [Wallace, 1987] which also explored the influence of firm characteristics on the disclosure of information by listed companies in Nigeria. Using multiple regression analysis, the researcher found a significant positive association between the extent of equity interest owned by MNCs and disclosure. However, a weak positive association between total disclosure and size, measured by book value of total assets, was also found.

The causes and nature of deficiencies in the accounting practices and information disclosures among companies in Kuwait were among the objectives of a study conducted by Al-Hajeri [1992]. The author studied the annual reports for a three year period, 1984-1986, of all 42 Kuwaiti companies (both financial and non-financial) listed on the Kuwait Stock Exchange. Interviews with professional accountants and other users of accounting information were conducted to ascertain the reliability of financial reports and the form and intensity of accounting regulation needed in Kuwait.

Diversity in accounting measurement practices and lack of adequate disclosure were observed by Al-Hajeri [1992]. Users indicated dissatisfaction with the level and reliability of disclosure in annual reports in Kuwait. The deficiency in financial reporting was attributable to inadequate regulation, absence of a strong accounting profession and a lack of adequate accounting research and training. The respondents recommended the adoption of a uniform accounting system, improvement in the scope of accounting regulation, a private sector and government partnership for the formulation of accounting standards which are backed by legislation.

Hossain, Tan and Adams [1994] examined the extent to which firm size, ownership structure, leverage, assets-in-place, size of audit firm and foreign listing influenced the general level of information voluntarily disclosed in annual reports by companies listed on the Kuala Lumpur Stock Exchange (KLSE). The 1991 annual reports of 67 listed companies studied including 12 were listed on both the KLSE and the LSE were analysed. An unweighted disclosure index based on 78 discretionary items was computed.

Using both the univariate (Mann-Whitney U test and student *t*-test) and multivariate analysis (OLS regression), Hossain et al. [1994] found that size, ownership structure and foreign listing status were statistically related to the level of information voluntarily disclosed by Malaysian companies in their annual reports. Leverage was found to be marginally significant with disclosure using the univariate test but the multivariate analysis showed no significant association. The univariate t-test for auditor type was statistically significant whereas the multivariate OLS revealed otherwise. The authors attributed the contradictory results to be partially due to minor multicollinearity effect among the independent variables.

Solas [1994] examined financial information disclosure by Jordanian companies in 1988, prior to the official adoption of IASs by the Jordanian Association of Accountants in 1990. The study focused on 45 companies comprising 28 and 17 from the manufacturing service sectors listed in the Amman Financial Market. The specific objectives of the study were to ascertain the extent of disclosure of information items; the relationship between the level of disclosure and the number of shareholders, size of assets, rate of return and earnings margin of the company; and the degree of compliance with IAS 1 'Disclosure of Significant Accounting Policies' and IAS 5 'Information to be Disclosed in Financial Statements'. Based solely on IAS 1 and IAS 5, which the author used as an approximate model of adequate disclosure, he developed a list of 31 items of information deemed relevant in the Jordanian environment whose importance was rated by Jordanian auditors. Using the mean importance ratings, weighted average disclosure scores were computed for each item of information and also in aggregate.

Solas [1994] found that the overall degree of disclosure on a company basis was 46.35%, which was comparable to the level found for the USA in 1974, but lower than the UK in 1972 and India in 1982-1983. Disclosure for balance sheet items was greater than income statement and accounting policies. Using univariate statistical tests, the author did not find a significant positive association between number of shareholders, size and the return on investment or the earnings margin and disclosure.

Ahmed and Nicholls [1994] assessed the relationships between the level of disclosure of statutory information and corporate size, total debt, MNC subsidiary status, qualifications of principal accounting officer of the company and audit firm size in Bangladesh. The quality of disclosure was analysed over a five-year period, 1984-1988, for 63 manufacturing companies drawn from a population of 110 companies listed on the Dhaka Stock Exchange (DSE).

Ahmed and Nicholls [1994] found a lack of compliance with mandatory disclosure requirements in Bangladesh. Using multiple regression and correlation analysis, it was found that subsidiaries of MNCs and companies whose accounts were audited by large audit firms exhibited high compliance with mandatory requirements ($p<0.05$). The qualifications of the principal accounting officer of a company had less impact ($p=0.08$) on disclosure compliance. Size and total debt were not observed to have a significant influence on compliance.

The quality of disclosure of corporate annual reports and the extent to which the information needs of users and the regulatory regime in Bangladesh were met were investigated by Nicholls and Ahmed [1995]. The authors developed a list of 87 mandatory and voluntary information items, the importance of each of which was judged on a seven-point Likert-scale by practising accountants, non-practising accountants, bank loan officers and financial analysts in Bangladesh. The quality of disclosure of 63 manufacturing companies listed on the Dhaka Stock Exchange (DSE) from 1984-1988 was analysed.

It was found that many of information items preferred by the bank loan officers and financial analysts were either not disclosed by any company or disclosed by only a few companies. Disclosures were comparatively higher for Balance Sheet (70.75%), Income Statement (67.98%) and Accounting Policies (61.50%) than Other Statements (43.36%) and Historical and Other Information (22.19%). Overall disclosure increased significantly from 48.4% in 1984 to 56.32% in 1988. The improvement in overall disclosure was traced to the introduction of accounting standards which were based on IASC standards with effect from 1984 and the enforcement of Stock Exchange Rules following the establishment of the Security and Exchange Authority in 1987 in Bangladesh.

Al-Modahki [1995] investigated the extent of and trends in disclosure and its relationship with five firm characteristics, namely, size, type of industry, auditor type, foreign investment and length of incorporation in the Kingdom of Saudi Arabia from 1986-1990. The study involved an analysis of disclosure of 121 information items in annual reports of 33 listed companies. Unweighted disclosure scores were derived for each company and the entire sample. Government officials and professional accountants were also interviewed to ascertain their views on accounting regulation in the country.

Al-Modahki [1995] found yearly increases in overall, voluntary and mandatory disclosure over the period studied. It was observed, using Wilcoxon matched-pair signed rank test, that the increases in aggregated disclosure were statistically significant except for the increase in 1990 from the 1989 level. Although full compliance was not obtained, mandatory disclosure increases were significant, except for the pairs of 1987 and 1988 and 1989 and 1990. The increases in voluntary disclosure for pairs of 1986 and 1987, 1988 and 1989, 1988 and 1990, 1989 and 1990 were not statistically significant. Disclosures pertaining to balance sheet, income statement, other financial statements and projections increased over the five years. The index for measurement and valuation methods increased for all years except 1990 when it decreased by 0.7%. The other general details index decreased in 1987 and 1988 but increased and remained the same in 1989 and 1990. The index of the auditors report and financial history for 5 years, which was the highest of the sub-indexes, did not change over the period. The issuance of accounting standards by the Ministry of Commerce in 1985, and which were applied by companies, accounted for the observed increases in disclosure. Using Mann-Whitney U test, a significant positive association between size and industry type, but not auditor type, foreign investment and length of incorporation and the extent of disclosure was found.

7.4. COMPARATIVE AND SURVEY DISCLOSURE STUDIES INVOLVING DEVELOPED AND EMERGING CAPITAL MARKETS

Comparative disclosure studies in developed and emerging capital markets have been undertaken by Singhvi [1967], Marston [1986] and Tay [1989]. However, in view of the weight of emphasis of the Tay study being on harmonisation measurement it has been reported in Chapter VI. There are survey studies involving both the developed and developing countries with or without capital markets. These studies include those undertaken by

Belkaoui [1990], Adhikari and Tondkar [1992], Gray and Vint [1995] and Salter and Niswander [1995].

Singhvi [1967] undertook a comparative study of India and the USA. The objectives of the study pertaining to the USA were similar to those reported by Singhvi and Desai [1971] already discussed in section 7.2. However, the impact of listing status on disclosure was not tested in India where managerial influence on disclosure was examined. The 1964/65 annual reports of listed companies in India were studied.

Singhvi [1967] found that disclosure levels in India were lower and less investor-oriented than in the USA, with companies in the former disclosing basically what was required by law. Companies managed by foreigners were found to disclose statistically significantly more information than those managed by indigenous managers in India. In both the USA and India, corporate size, number of shareholders and profitability were found to be positively associated with disclosure. A significant positive association between auditor and disclosure was found in the USA but not in India. Superior quality of disclosure was related, on the average, to lower fluctuations in securities prices in the USA and India.

Marston [1986] studied financial reporting regulations and practices in India and the UK. Disclosure by companies in the two countries was evaluated against a disclosure checklist of 17 information items. The annual reports of thirty large companies in India whose financial years ended in 1982 or

1983 were analysed. In the UK, however, data from two surveys of accounting practices of large companies based on their 1982/83 and 1983/84 annual reports conducted by the ICAEW were used. An unweighted index score was calculated for each of the companies in India.

Marston [1986] found that Companies Acts and stock exchanges were significant sources of accounting regulation in the two countries. The Companies Act of Britain influenced the Indian Companies Act. The influence of the stock exchange was stronger in the UK than in India. On the whole, the disclosure of information in financial reports in India was not as comprehensive as in the UK. The mean disclosure score for the sample of Indian companies was 62.4% which compared with 63.6% in 1968 but lower than 73.1% in 1972 in the UK. The accounting requirements in both countries accounted for the disparities in disclosure. Contrary to the findings of Singhvi [1967], Marston [1986] found that companies in India gave more information than strictly required by law.

Belkaoui [1990] sought to correct the omission of managerial, academic and professional influences on accounting development in earlier research studies. Based on 107 disclosure practices contained in the 1982 University of Glasgow/Delloite Haskins and Sells International database, Belkaoui derived disclosure indexes for the thirty developed and developing countries. The disclosure indexes were used as a measure of the state of accounting development in each of the countries. The extent of academic, professional and managerial influences on accounting development was also measured using data provided in the database.

Using multiple regression, Belkaoui [1990] found that academic, professional and managerial influences were positively associated with actual disclosure adequacy. The overall regression was significant (F significant at $\alpha = 0.01$) and explained 38.9% of the variations in the dependent variable of actual disclosure adequacy suggesting that other factors are also important in explaining disclosure levels in a country.

A study of *de jure* disclosure in 34 stock exchanges in both the developed and developing countries was conducted by Adhikari and Tondkar [1992]. They examined the relationship between environmental factors and disclosure, which was measured by listing and filling requirements. The environmental factors studied were: the degree of economic development measured by GNP/population, type of economy measured by agricultural sector output/GDP, the size of the equity market quantified as market capitalisation/GDP, activity on equity market proxied by market turnover/market capitalisation and dispersion of stock ownership measured by listed companies/population. A disclosure index comprising 44 information items based on the requirements of the developed stock exchanges and review of previous international disclosure studies was constructed. Weighted and unweighted disclosure indexes were computed for each stock exchange.

Using cross-sectional regression model, Adhikari and Tondkar [1992] found that the size of equity market was significant in explaining the variation observed in *de jure* disclosure levels in different stock exchanges. No significant relationships were, however, found between economic development, type of economy, activity on equity market and dispersion of stock ownership.

Gray and Vint [1995] examined the relationship between culture and accounting disclosures in an international context. They examined the link between national culture, specifically, the secrecy-transparency dimension of the Gray [1988] model and accounting systems. The study focused on 256 disclosure practices of 27 countries covered in the 1982/83 University of Glasgow and Deloitte Haskins and Sells International database. Mean scores indicating the extent of corporate disclosure in each country across the 256 disclosure items were derived. Linear regression analysis was run using the mean disclosure scores as the dependent variable and indexes of cultural (societal) values derived by Hofstede [1980] as the independent variables.

The results of both univariate and multivariate regression analysis conducted by Gray and Vint [1995] confirmed that the extent of information disclosure is positively correlated with individualism and masculinity and negatively correlated with uncertainty avoidance and power distance providing a partial support for the Gray [1988] model. The study was limited in methodology as it did not control confounding effects which might have arisen from firm size, industry category, listing status, auditor influence, and institutional factors such as regulatory systems and capital market structures on disclosure of information.

A further test of the Gray [1988] model of cultural influence on financial reporting was undertaken by Salter and Niswander [1995]. In addition to the Gray [1988] cultural values, they examined the impact of two non-cultural variables, namely, taxation and capital market development. Proxies for the independent and dependent variables were developed. Professionalism was proxied by auditor judgement and Uniformity by legal system and degree of uniformity of accounting standards. An index of a country's utilisation of reporting practices designed to reduce assets or income proxied Conservatism while Secrecy was operationalised as the extent of disclosure. The ratio of capitalization/gross national product was used as a measure of capital market development. Taxation was measured by the effective marginal corporate tax rate in a country. The Hofstede's constructs were measured by the values reported in his 1980 work. Their sample included 29 countries with developed and emerging capital markets except countries from the Near Eastern and African groups identified by Gray [1988]. Gray's accounting values were used as the dependent variables and the Hofstede's cultural values as the independent variables. The OLS regression model was used to analyse the data at the 5% percent level of significance.

Salter and Niswander [1995] found that high Uncertainty Avoidance countries had accounting systems that are dictated by prescriptive legal requirements for accounting practice and statutory control of the accounting profession. Contrary to the Gray's hypothesised position of lack of relationship between Uniformity and Masculinity, a significant negative relationship was observed. It was also found, contrary to Gray's hypothesis, that uniformity in accounting practices was significantly positively related to Masculinity and significantly negatively related to Uncertainty Avoidance. The analysis revealed also that taxation and capital market development significantly enhanced the explanation of the Gray [1988] model.

7.5 CONCLUSION

The review of prior empirical research studies lead to a number of conclusions. It appears to be the case that there is a gap between the information needs of users and actual disclosures by companies in both developed and emerging capital markets. Lack of compliance with mandatory requirements prevails but appears to be more common in ECMs. Generally, disclosure in the developed capital markets is superior to ECMs. National characteristics in disclosure are also evident. The influences of firm characteristics on disclosure have been widely researched, especially in the developed capital markets, with varying results. Among the factors examined are firm size, listing status, organisational structure and corporate relationships, type of ownership, auditor type, culture, internationality of operations, profitability and leverage. The number of variables examined and models used to analyse data have varied from one study to another. On balance, the bulk of the empirical studies reviewed focused on the developed capital markets. There is, generally, a paucity of disclosure research in ECMs and we did not come across any study on Ghana which is the focus of this study.

CHAPTER VIII

RESEARCH QUESTIONS, OBJECTIVES AND HYPOTHESES

8.1 INTRODUCTION

This study deals with the comparability and adequacy of corporate financial reports as well as relevance, promotion and observance of IASC standards in Ghana. The previous chapters were devoted to reviewing literature on the above issues. In this chapter, the research questions investigated, the objectives of the study and hypotheses tested are considered. The research questions and objectives are dealt with in section 8.2 while the hypotheses are developed in section 8.3. Concluding remarks are offered in Section 8.4.

8.2 RESEARCH QUESTIONS AND OBJECTIVES

8.2.1 COMPARABILITY OF ACCOUNTING MEASUREMENT METHODS

One of the goals of accounting is the determination of income and valuation of assets and liabilities of a firm. The calculation of income and valuation of assets and liabilities are affected by accounting measurement methods used by a firm. Diversity of accounting measurement methods among firms and over time makes financial reports less comparable.

The lack of comparability of financial reports hinders investment analysis and decision-making and increases the transactions costs of investors. Comparable financial reports are therefore beneficial to investors. In this regard, it may be necessary to introduce and enforce accounting regulations if the market for information fails to promote comparability of financial reports. Knowledge of the level of comparability of financial reports and factors influencing it could therefore be helpful to financial reporting regulators in identifying areas of diversity of practices for necessary regulations to be introduced. To this end, two questions are investigated:

Question 1

What is the degree of comparability of accounting measurement methods in Ghana?

Question 2

What factors influence the degree of comparability of accounting measurement methods in Ghana?

In respect of Question 1 and Question 2, the goals of this study are:

- To identify and ascertain the frequency of use of accounting measurement methods by companies in Ghana.

- The ascertain the extent to which accounting measurement methods used by companies complied with accounting regulations in Ghana and IASC standards.
- To evaluate the impact of accounting regulation and the development of the capital market on the degree of comparability of accounting measurement methods used by companies in Ghana. Comparability is viewed from two angles. These are consistency of accounting measurement methods over time and concentration or popularity of these methods among companies.

8.2.2 ADEQUACY OF CORPORATE DISCLOSURE

Information is used by investors to monitor management and to make investment decisions. Adequate information reduces the transactions costs of investors. It is, therefore, necessary to know and understand the extent to which corporate disclosure meets the information needs of investors and factors influencing such disclosures. Results of empirical research into disclosure can assure investors that all is well or reveal areas which require improvement for appropriate policy measures to be taken. In Ghana, therefore, answers to the following questions are needed:

Question 3

What is the extent of corporate disclosure in annual reports in Ghana?

Question 4

What factors influence the extent of corporate disclosure in annual

reports in Ghana?

The objectives pursued in respect of Question 3 and Question 4 are as follows:

- To measure the extent of corporate disclosure in Ghana. This involves identifying and assessing the extent to which each relevant information item and categories of information are disclosed by companies. Overall disclosure, voluntary disclosure, mandatory disclosure and the disclosure position of each company are also evaluated.
- To evaluate factors which influence the extent of disclosure in annual reports in Ghana. The factors investigated are corporate size, listing status and accounting regulation.

8.2.3 USEFULNESS, PROMOTION AND OBSERVANCE OF IASC STANDARDS

The IASC is one of the international influences which affect corporate financial disclosure. The standards of the IASC are recognised as indexes of good practice the observance of which should, *ceteris paribus,* enhance comparability and adequacy of financial reports in ECMs. However, worldwide observance of IASC standards appears to be elusive [Doupnik and Salter, 1993; Salter and Niswander, 1995]. Granted that IASC standards have the potential to enhance the adequacy and comparability of financial reports, their observance has to be encouraged in ECMs. To this end, it will be necessary to ascertain and understand the extent to which IASC standards are deemed useful and observed and the factors which influence these in every country for measures to be taken to redress gaps which may exist. The questions investigated in Ghana, therefore, are:

Question 5

How influential are IASC standards in the Ghana capital market?

Question 6

What is the extent of observance of IASC standards in annual reports in Ghana?

Question 7

What factors influence the extent of observance of IASC standards in annual reports in Ghana?

In respect of the above three questions, the aims of this study are:

- To seek opinions of users and producers of annual reports and regulators of financial reporting on the relevance of IASC standards to the Ghana Stock Exchange.
- To ascertain the extent to which professional accountants have promoted the observance of IASC standards in Ghana. This involves ascertaining the role of the ICAG and professional accounting firms in promoting IASC standards in Ghana.
- To measure the extent to which the disclosure of information in annual reports in Ghana is in line with IASC standards.
- To evaluate impact of corporate size, listing status and accounting

regulation on the extent of observance of IASC standards in annual reports in Ghana.

8.3 HYPOTHESES

8.3.1 IMPACT OF ACCOUNTING REGULATION AND LISTING STATUS ON CONSISTENCY OF ACCOUNTING MEASUREMENT METHODS

Accounting regulation in Ghana was mainly derived from the Ghana Companies Code, Act 179, from 1963 until GSE listing regulations and GNASBSs were introduced in 1991 and 1994 respectively. The GSE listing regulations did not include any new requirements pertaining to accounting measurement methods. GNASBSs, however, ushered in regulations for some accounting measurement items which were not provided by the Ghana Companies Code, Act 179.

The history and scope of accounting regulations pertaining to accounting measurement methods in Ghana suggest that the period before compared to the period after GNASBSs were introduced would have afforded greater flexibility to preparers of financial statements in choosing accounting measurement methods. *Ceteris paribus,* differences in accounting methods of companies should be observed in the period before the introduction of GNASBs (i.e. period of low accounting regulation) compared to the period after GNASBSs were introduced (i.e. period of high accounting regulation).

It is hypothesised in the null form that:

Hypothesis 1
There are no significant differences in the accounting measurement methods used by companies in Ghana during the period of low accounting regulation compared to the period of high accounting regulation.

While a capital market listing heightens pressures on companies to disclose more information to investors, the extent to which such pressures drive companies to use similar methods of accounting for similar items is not clear. In a study by Emenyonu [1993] he did not find significant differences in accounting measurement methods of companies listed solely on the domestic stock exchanges and multi-listed companies.

Since capital markets are one of the key factors influencing financial reporting, it will be appropriate to examine its impact on accounting measurement methods used by companies. Ghana launched a stock exchange in 1990 which signalled a move towards the development of its capital market. To test the impact of capital market development, proxied by GSE listing status, on accounting measurement methods used by companies, the following hypothesis in the null form is stated:

Hypothesis 2
There are no significant differences in the accounting measurement methods used by companies in Ghana during the period before listing compared to the period after listing on the Ghana Stock Exchange.

8.3.2 IMPACT OF ACCOUNTING REGULATION AND LISTING STATUS ON CONCENTRATION OF ACCOUNTING MEASUREMENT METHODS

If companies use diverse accounting measurement methods comparability may be limited and *vice versa*. The degree of comparability of financial reports in Ghana between the period of low accounting regulation and the period of high accounting regulation would have depended on the relative use of accounting measurement methods in both periods. The same argument holds for the pre-listing and post-listing periods. Two hypotheses in the null form are generated:

Hypothesis 3
There are no changes in the comparability of the accounting measurement methods used by companies in Ghana from the period of low accounting regulation to the period of high accounting regulation.

Hypothesis 4
There are no changes in the comparability of the accounting measurement methods used by companies in Ghana from the period before listing to the period after listing on the Ghana Stock Exchange.

8.3.3 FIRM SIZE AND CORPORATE DISCLOSURE IN ANNUAL REPORTS

Size has been found to be a major explanatory factor for the disclosure of information in annual reports by companies [Singhvi, 1967; Singhvi and Desai, 1971; Buzby, 1972, 1974; Firth, 1979a, 1979b; Cooke, 1989a, 1989b, 1991, 1992, 1996; Nicholls and Ahmed, 1995; Ahmed and Nicholls, 1995; Hossain et al., 1994, 1995]. Larger firms tend to disclose greater amounts of financial information than smaller firms for a variety of reasons.

Agency costs increase as the size of a firm increases warranting increased monitoring of the actions of management by shareholders and creditors. Agency theory, therefore, suggests that large firms will increase disclosure of information in order to reduce agency costs [Chow and Wong-Boren, 1987].

Information disclosure is costly and it seems plausible that large firms are more likely to be in a position to bear such costs than small firms for a number of reasons. Information needed for annual report disclosure is likely to be generated already for the internal management systems of large firms such that little extra cost may be incurred by them in providing such information in annual reports. Small firms are also loathe to disclose more information for fear of being put into a competitive disadvantage with large firms in the industry. Generally, political costs are higher for large firms than for small firms such that the former seek to reduce such costs through increased disclosure. It is hypothesised that:

Hypothesis 5
Size is positively associated with corporate disclosure in annual reports in Ghana.

8.3.4 LISTING STATUS AND CORPORATE DISCLOSURE IN ANNUAL REPORTS

Capital markets are one of the predominant forces in raising the level of disclosure [Adhikari and Tondkar, 1992]. More disclosure regulations imposed and enforced by stock exchanges and competitive market pressures underscore higher disclosures of information by listed firms than unlisted firms. In many cases, stock exchanges impose additional financial reporting regulations for listed companies. The stock exchange regulatory mechanism, which is often more effective than other financial reporting regulatory agencies, tends to ensure that listed companies will, more than unlisted companies, comply with financial reporting regulations.

Empirical research has found that listed companies tend to disclose more information than unlisted companies [Singhvi, 1967; Singhvi and Desai, 1971; Firth, 1979b; Cooke, 1989a, 1989b, 1991,1992, 1996; Wallace et al., 1994; Hossain et al., 1994, 1995]. Among listed companies, those which are multi-listed internationally disclose more information than those listed in domestic stock exchanges only [Cooke, 1989a, 1989b, 1991, 1992, 1996; Gray et al., 1995; Hossain et al., 1995]. Choi [1993] also found that companies which used the Euro-market to raise funds disclosed more information than those which did not. Listed companies voluntarily disclose more information in order to improve their share prices and raise finance on the best possible terms [Gray and Roberts, 1989; Narayanaswamy, 1996]. Listed companies receive intense press attention and coverage making the demand for information almost inevitable [Firth, 1979b]. The launching of a stock exchange, the GSE, in Ghana in 1990 presents an opportunity to test the effect on disclosure of entry into a capital market. It is hypothesised that:

Hypothesis 6
Listing status is positively associated with corporate disclosure in annual reports in Ghana.

8.3.5 ACCOUNTING REGULATION AND CORPORATE DISCLOSURE IN ANNUAL REPORTS

Accounting regulation is one of the key forces which shape disclosure practices worldwide [Adhikari and Tondkar, 1992; Willman,1997]. The introduction of accounting regulation expands the scope of corporate disclosure. However, the mere introduction of accounting regulation may not have the desired impact on *de facto* disclosure practices of companies if they fail to comply. Private or professional regulation lacks enforcement power as opposed to public regulation and as such financial reporting standards introduced by the accountancy profession may not be observed if they are not backed by law. Ghana witnessed two major new accounting regulations from 1988-1997 as already indicated in section 8.3.1. These events present an opportunity to examine the impact of accounting regulation on the extent of disclosure. It is hypothesised that:

Hypothesis 7
Accounting regulation is positively associated with corporate disclosure in annual reports in Ghana.

8.3.6 RELEVANCE OF IASC STANDARDS IN THE GHANA CAPITAL MARKET

Strong criticisms of IASC standards in developing countries have been advanced by writers such as Samuels and Oliga [1982], Samuels [1990], Briston [1990], Hove [1984, 1990] and Wallace [1990b]. It is perceived, however, by some of the critics and other writers that IASC standards may be useful in ECMs many of which are found in developing countries. In addition to adequate disclosure of information, the internationalisation of capital markets and businesses requires that financial reports are comparable and harmonised to make them understandable to investors not only in the domestic milieu but also across borders. The globalisation of businesses and capital markets is a strong impetus for the application of IASC standards in ECMs. It is accordingly hypothesised that:

Hypothesis 8
IASC standards are an influential factor in the Ghana capital market.

8.3.7 FIRM SIZE AND OBSERVANCE OF IASC STANDARDS IN ANNUAL REPORTS

The detailed requirements of IASC standards indicate the likely incidence of direct and indirect costs for their observance. More disclosures can increase the cost of collating, printing and attestation of annual reports based on IASC standards. Further, detailed disclosures inherent in the use of IASC standards can result in competitive disadvantage to firms. These costs can be better borne by large firms than small firms. Moreover, as indexes of best practice, large firms are more likely than small firms to observe IASC standards in order to minimise their political costs. It is hypothesised that:

Hypothesis 9
Size is positively associated with the observance of IASC standards in annual reports in Ghana.

8.3.8 LISTING STATUS AND OBSERVANCE OF IASC STANDARDS IN ANNUAL REPORTS

Financial reports prepared on the basis of IASC standards are recognised to be credible. In view of this, regulators of stock exchanges tend to require listed companies to observe IASC standards. Although this is not an express requirement of the GSE, the need for international reporting standards has been recognised by regulators of the GSE and financial analysts [IFC 1989, Databank, 1994]. The observance of IASC standards by listed companies in Ghana should, *ceteris paribus*, enhance investor confidence and protection in the GSE through the provision of financial information which is comparable and adequate from an international standard of reporting perspectives. It is expected, *apriori*, that listing on the GSE should encourage the observance of IASC standards in Ghana. It is hypothesised that:

Hypothesis 10
Listing status is positively associated with the observance of IASC standards in annual reports in Ghana.

8.3.9 ACCOUNTING REGULATION AND OBSERVANCE OF IASC STANDARDS IN ANNUAL REPORTS

The ICAG has, since 1995, adopted and used IASC standards to formulate accounting standards, GNASBSs, in Ghana. If GNASBSs do not reflect financial reporting practices already in existence it should be expected that disclosures by companies would increase if these standards are complied with. Also, since GNASBSs are similar to IASC standards, compliance with the former would be tantamount to observance of the latter. It is, therefore, hypothesised that:

Hypothesis 11
Accounting regulation is positively associated with the observance of IASC standards in annual reports in Ghana.

8.4 CONCLUSION

This chapter has examined the research questions to be investigated and the objectives of this study. Eleven hypotheses to be tested have been developed. These hypotheses relate to comparability of accounting measurement methods, the extent of corporate financial disclosure and the relevance and observance of IASC standards. The factors whose impact on financial reporting is examined are firm size, listing status and accounting regulation. In the next chapter, the procedures used to collect and analyse the data to empirically test the hypotheses generated in this chapter and also deal with other objectives of this study are explained.

CHAPTER IX

DATA COLLECTION AND ANALYSIS PROCEDURES

9.1 INTRODUCTION

Research findings are influenced and understood within the context of the methods used to collect and analyse data and their limitations. The choice of research methods is influenced by the epistemological position of a researcher. It is necessary, therefore, to explain the methods used to collect and analyse data in any study. This will not only help a reader to understand the findings within the limitations of the methods employed, but also provide parameters for replication, and facilitate comparison with other studies. This chapter sets out the procedures used to collect and analyse the data in this study and their limitations. The issues covered are methodological basis of this study, the rationale for studying Ghana, period studied and samples. Other issues covered are: research instruments and the processes used to collect the data, operationalisation of the quality of disclosure and observance of IASC standards, definition of an index of disclosure, basis for using an unweighted disclosure index, derivation of a disclosure index, factors influencing financial reporting investigated, statistical techniques used to test hypotheses, definition of periods and statistical package used to process and analyse the data.

9.2 ECLECTIC METHODOLOGICAL APPROACH TO THIS STUDY

Like many of the social sciences, the debate on epistemology in accounting has not as yet found a common ground. The naturalistic and scientific approaches to research in accounting have both been recommended and used in the literature [Al-Amari, 1989; Watts and Zimmermann, 1986]. The naturalistic approach relies on the assumption that meanings can be ascribed to opinions or views of individuals from which a phenomenon can be understood. The approach recognises though that the biases of individuals can affect the outcomes of investigations. Under the scientific approach it is assumed that there is the existence of objective facts from which analysis can be made to arrive at valid conclusions on a phenomenon and also test existing theories.

The relevance and application of each of the two research approaches is not only situational but depends on the philosophical position of each researcher and, to some extent, on the tradition of each discipline. Both the naturalistic and scientific approaches to accounting research are consistent with and complementary to each other and form the philosophical basis for the strategy employed to gather data in this study. The scientific approach was used in this study to test hypotheses about some propositions. Through the naturalistic approach, explanations for observed phenomena and views on issues were obtained from individuals.

Archival and opinion research strategies were employed in the collection of the data. Archival research was necessary since recorded facts, being company annual reports and authoritative documentary sources such as accounting standards, GSE listing regulations and earlier empirical studies had to be examined. In this regard, content analysis technique was used. Content analysis entails assigning quantitative values to words and phrases in order to assess the intensity and significance of communication. Interviews were conducted to seek explanations on corporate financial reporting practices.

9.3 CHOICE OF GHANA

The need for research into financial reporting in developing countries/ECMs has been advocated. Wallace [1987: 227] has noted:

> "...The differences in the quality and environment of accounting and financial reporting in [developing] countries are real and significant. No meaningful generalisations can be made about accounting in these countries until we understand the conditions which promote or constrain the growth of accounting in many of them. This means that each developing country is a candidate for intensive study so that the true nature of accounting profile can be analysed and reported".

Focusing on Ghana was therefore motivated by the need to increase the knowledge of financial reporting in the country and to add to the literature on developing countries/ECMs generally. More specifically, research into the issues investigated had not been previously dealt with in the context of Ghana.

The establishment of a stock exchange in Ghana has brought to the fore the need for international reporting standards. In this regard, it was felt that an investigation aimed at evaluating the extent to which financial reporting regulations and practices in Ghana compare with international standards would benefit policymakers in formulating policies and regulations, which would focus on the needs of the country.

Two events whose impact on accounting and reporting in Ghana needed examination were the establishment of a stock exchange and the development of accounting standards. These events provided an opportunity to examine the impact of capital market development and regulation on financial reporting in Ghana following an historical analysis.

The choice of Ghana was also influenced by the availability of data and resource constraints. The position of the researcher, as a professional accountant in industry in Ghana, proved an advantage in providing access to companies and individuals for data. While a comparative study of countries in the ECOWAS region, for example, could have been also more revealing, lack of resources constrained the researcher from such a venture.

9.4 PERIOD STUDIED

The study covered a period of ten years, 1988-1997. As noted by Kapaya [1995:9], a longitudinal study "provides explanations that go a long way to help us understand the sources of historical trends." The study of ten years provided an opportunity to examine the evolution of financial reporting in Ghana over time, which has not been typical in many earlier studies. In particular, it afforded an opportunity to study the impact of the development of the Ghana capital market and the introduction of accounting regulations on financial reporting. The period chosen included two years before the establishment of the GSE in 1990. It also coincided with 1991 and 1994 when new accounting regulations were introduced in Ghana. The inclusion of 1997 enabled an evaluation of the most recent financial reporting practices in Ghana.

9.5 SAMPLES AND SAMPLE SIZES

9.5.1 SAMPLE OF NON-FINANCIAL COMPANIES

The study focused on private sector profit-seeking non-financial companies. Financial companies were excluded because they had been subject to additional regulations. As in many countries, financial institutions in Ghana were affected by additional financial reporting requirements which did not apply to non-financial companies for the period studied. In addition to the reporting requirements of the Ghana Companies Code Act 179 and the GSE listing regulations which applied to all listed companies, banks and other non-bank financial institutions faced additional reporting requirements prescribed by the Bank of Ghana or the Insurance Commission of Ghana.

The exclusion of financial institutions from the study afforded a homogeneous sample. This is consistent with many studies which have investigated disclosure issues[2]. As at 31 December 1997, 21 companies comprising five financial institutions and 16 non-financial companies were listed on the GSE. All the non-financial companies but one, Ashanti Goldfields Company Limited (AGC), was studied. AGC was excluded because it was substantially different from the other listed companies. Apart

[2] see Cooke [1989a, 1989b, 1991,1992, 1996], Chamisa [1994], Chow and Wong-Boren [1987], Cowen et al.[1987], Freedman and Stagliano [1992], Wallace et al.[1994], Ahmed and Nicholls [1994], Nicholls and Ahmed [1995], Hossain et. al. [1994, 1995], Gray et al.[1995], Meek et al.[1995] and Neu et al. [1998].

from being large and accounting for 84% of the total capitalisation of the GSE as at 31 December 1997, AGC was the only multinational and internationally multilisted company among the listed companies in Ghana. Being multilisted internationally, AGC was subject to additional reporting regulations imposed by the foreign stock exchanges[3]. A final sample of 15 non-financial companies was studied. The names of the companies and their characteristics are detailed in Table 9.1.

9.5.2 CHARACTERISTICS OF SAMPLE COMPANIES

9.5.2.1 Incorporation and Listing of Companies

All companies were in existence before 1988, the commencement date for this study. UTC of Ghana Limited was however wound up and re-incorporated as UTC Estates of Ghana Limited in 1994. In this study, UTC of Ghana Limited and UTC Estates of Ghana Limited are treated as the same company. UAC of Ghana Limited merged with Lever Brothers Ghana Limited to form Unilever Ghana Limited in 1995. Reference to Unilever Ghana Limited in this study includes its predecessor company, UAC of

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[3] In view of its massive size, AGC has been excluded from the GSE-All Share Index which is used to measure the performance of listed companies in Ghana. Thus, with the exception of AGC, the GSE-All Index comprises the shares of all the companies listed on the GSE.

Table 9.1: Characteristics of Sample Companies

Name of Company	Year Listed	Subsidiary of MNC	Country of Origin	Foreign Holding (%)[1]	Industry Category	Holding Company	Auditor[5]
Accra Brewery Limited	1990	Yes	UK	55.50	Manufacturing	No	PKF
Aluworks Limited	1996	No	Ghana	6.09	Manufacturing	No	KPMG
CFAO Ghana Limited	1992	Yes	France	60.00	Retailing	No	KPMG
Fan Milk Limited	1990	Yes	Denmark	61.29	Manufacturing	No	PKF
Guinness Ghana Limited	1990	Yes	UK	69.54	Manufacturing	No	BA[6]
Kumasi Brewery Limited	1990	Yes	Netherlands	50.30	Retailing	No	KPMG
Mechanical Llyod Company Limited	1994	No	Ghana	19.00	Manufacturing	No[4]	C&L[7]
Metalloplastica Ghana Limited	1990	No	Ghana	48.59	Manufacturing	No	RAP
Mobil Oil Ghana Limited	1991	Yes	USA	62.24	Retailing	No[4]	KPMG
Paterson Zochonis Ghana Limited	1990	Yes	UK	94.45	Manufacturing	Yes	KPMG
Pioneer Aluminium Factory Limited	1995	No	Ghana	6.80	Manufacturing	No	KPMG
Pioneer Tobacco Company Limited	1990	Yes	UK	84.25	Manufacturing	No[4]	KPMG
Super Paper Products Company Limited	1992	No	Ghana	28.75	Manufacturing	No	D&T
Unilever Ghana Limited	1990	Yes	UK	78.10	Manufacturing[2]	Yes	C&L
UTC Estates of Ghana Limited	1990	Yes	Switzerland	69.47	Real Estate[3]	No[4]	C&L

[1] Percentage foreign holdings were as at 31st December, 1997. [2] Before 1997, it was classified as retailing though it held investments in manufacturing companies. [3] From 1988-1994, it was classified as retailing. [4] The companies had subsidiaries at some point in time from 1988-1997. [5] The abbreviations of names of auditors mean the following: PKF= Panell Kerr Forster, BA= Boye, Abotsie & Company, C&L= Coopers & Lybrand, RAP= Rockson, Adoe and Parry Company, D&T= Deliotte and Touche. [6] The company is a subsidiary of Coopers and Lybrand. [7] Before listing on the GSE the company's auditors were Harry Richardson & Co. was a subsidiary of Coopers and Lybrand (now Price Waterhouse Coopers).

Ghana Limited. Nine companies were listed on the GSE from its inception in 1990, one in 1991, two in 1992 and one each in 1994, 1995 and 1996.

9.5.2.2 Ownership Structure and Origin of Companies

All the sample companies were incorporated under the laws of Ghana. As shown in Table 9.1, Ghanaians owned majority interests in five companies with majority interest in the remaining ten companies resting with foreigners as at 31 December 1997. The companies with majority foreign holdings were subsidiaries of six multinational companies from the United Kingdom, and one each from France, Denmark, the Netherlands and Switzerland.

9.5.2.3. Industry Category and Complexity of Operations of Companies

As indicated in Table 9.1, eleven of the sample companies were engaged in manufacturing and retailing, three in retailing only and one in real estate development as at 31 December 1997. The real estate company, UTC Estates of Ghana Limited, was until 1994 engaged in retailing. Unilever Ghana Limited added manufacturing to its portfolio in 1995 following the merger with Lever Brothers Ghana Limited. In 1997, Unilever Ghana Limited refocused on manufacturing. On the whole, the companies surveyed were not complex in outlook and were involved mainly in one industrial sector.

9.5.2.4 External Auditors of Companies

All, but one of the companies studied, were audited by the "Big Six" international firms of auditors as at 31 December 1997 as reported in Table 9.1. Guinness Ghana Limited was audited by Boye, Abotsie & Co. which Coopers). As gathered from interviewing a partner of Boye, Abotsie & Co., who was also a partner in Coopers and Lybrand, the former was set up in response to an Indigenisation Policy of GOG in the 1970s. The only local and non-"Big Six" firm which audited one of the listed companies was Rockson, Adoe and Parry Co. Prior to listing on the GSE, Mechanical Lloyd Company Limited was audited by a non-"Big Six" international firm of auditors, Harry Richardson and Co., which is a local firm of auditors.

9.5.2.5 Sizes of companies

Size may be measured by a number of variables which include total assets, total capital employed, total capitalisation, number of employees, number of shareholders and sales. Ahmed and Nicholls [1994] have observed that there appears to be no theoretical reason why one proxy of size should be preferred over another. This position ought to be accepted with some measure of caution since non-recurring and extra-ordinary events may undermine a size measure if adjustment is not made. Given that this study is longitudinal, total assets and sales were considered for selection as proxies for size since both tend to be stable over time [Wallace et al., 1994]. However, total assets had to be dropped because the frequency

Table 9.2: Sales of Sample Companies in Ghana: 1988-1997[1]

Name of Company	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Accra Brewery Limited	1662	2241	3034	4173	4928	5876	6922	10586	17035	23963
Aluworks Limited	4559	6078	9430	8565	12778	20626	33824	55333	75342	87881
CFAO Ghana Limited	2712	2609	2881	2230	3140	4956	6994	10022	11311	16054
Fan Milk Limited	155	309	1124	2744	3881	5402	6389	12083	19156	29383
Guinness Ghana Limited	5359	6435	8226	12806	17014	23079	32975	47765	75968	99688
Kumasi Brewery Limited	1313	2328	3204	3562	4668	5481	7635	11596	20715	27237
Mechanical Llyod Company Limited	1502	904	1652	1582	2166	2698	4611	6920	12106	18765
Metalloplastica Ghana Limited	302	482	732	619	908	1385	1842	2598	3860	5233
Mobil Oil Ghana Limited	10163	12511	23431	36702	48312	75924	108581	158501	217287	221212
Paterson Zochonis Ghana Limited	981	1113	1344	1584	2123	2723	4116	8040	14035	19893
Pioneer Aluminium Factory Limited	381	1015	719	1101	1212	1696	2685	4097	6712	9875
Pioneer Tobacco Company Limited	12154	19444	17159	20532	22821	30011	38054	50380	26840	33385
Super Paper Products Company Limited	205	703	1186	1456	1702	2186	2759	3368	5438	6961
Unilever Ghana Limited	11252	16292	21933	26740	51197	77048	106189	163957	222941	227623
UTC Estates of Ghana Limited	1843	2699	3351	4067	2898	3793	549	1086	690	900

[1] Amounts are recorded in millions of Ghana cedis. See Appendix 26 for Ghana cedi/US dollar exchange rates.

and categories of assets which were revalued varied among the companies studied. It was therefore thought that variations in the timing and coverage of revaluation were likely to have distorted asset values in financial statements among companies. On the other hand, inflation reflects in selling prices of companies in a more or less equal manner. Consequently, sales was considered a better measure of size and was therefore used instead of total assets. Sales of the sample companies from 1988-1997 are presented in Table 9.2.

9.5.3 INTERVIEW RESPONDENTS

Respondents were persons who could influence policy on the issues investigated in their respective organisations. It was necessary to interview such persons since their opinions can be assumed to approximate fairly with that of their respective organizations. Thirty-six prospective respondents were identified of which thirty-three were interviewed as detailed in Table 9.3 representing a response rate of 91.7%. The high response rate was attained partly because the researcher had a very good knowledge of Ghanaian society which enabled him to use all possible contacts and strategies to reach respondents. The list of respondents indicating their names, organisations, designations and dates on which they were interviewed is provided as Appendix 1.

Table 9.3: Analysis of Interview Respondents

Organization	Respondents	Number targeted	Number interviewed
Listed companies	Chief Executive or Financial Director	15	13
Institute of Chartered Accountants	Registrar/Chief Executive	1	1
Ghana Stock Exchange	Managing Director	1	1
Registrar General's Department	Companies Registrar	1	1
Securities Regulatory Commission	Executive Secretary	1	1
External Auditing Firms	Partners	5	5
Brokerage Firms	Financial Analysts	12	10
Total		**36**	**33**

9.6 RESEARCH INSTRUMENTS AND PROCESSES

9.6.1 ACCOUNTING MEASUREMENT CHECKLIST

The accounting measurement methods selected for investigation was influenced by the characteristics of the companies studied and also the environmental circumstances of Ghana. Research and development costs, government grants, goodwill, consolidation and associated companies were excluded from this study for a number of reasons. After a review of accounting policies of the sample companies it was observed that only two disclosed policies for research and development costs and one for government grants. One company only recorded a small amount of goodwill in three of the ten years studied, but did not indicate the source nor methods of accounting. Five companies reported subsidiaries. In two of the companies, however, the subsidiaries either never became operational or were subsequently liquidated. In two other companies, the subsidiaries existed for the management of the superannuation funds of the employees and not for operating purposes. Effectively, therefore, only one company had an operating subsidiary. Associated companies were also not popular among the sample companies as only one had such a related company. In the light of the above, it was therefore deemed appropriate to investigate accounting measurement methods pertaining to the following items: valuation of stock-in-trade, assignment of cost to stock-in-trade, valuation of tangible fixed assets, depreciation of tangible fixed assets, translation of foreign currency transactions, translation of balances held in foreign currency, treatment of translation differences, valuation of long-term investments and accounting for deferred taxation.

Three categories of tangible fixed assets, namely property, plant and machinery and equipment, were identified and considered separately. In respect of long-term investments, trade investments and investment properties were identified and examined separately. Two sources of deferred taxation were examined separately. These were deferred taxation arising from gains on revaluation of tangible fixed assets and deferred taxation arising from different capital allowances and depreciation rates. A total of fifteen accounting measurement practices indicated in Appendix 2 were investigated.

After a review of the annual reports of some of the sample companies and literature, methods of accounting for each of the fifteen accounting measurement items were identified as detailed in Appendix 2. "Non-applicable" and "not disclosed" categories were included in the accounting measurement checklist to aid scoring.

9.6.2 DISCLOSURE CHECKLIST

An initial list of 182 information items considered useful to investors in a capital market was developed after reviewing IASC standards, GNASBSs, Ghana Companies Code, Act 179, Stock Exchange (Ghana Stock Exchange) Listing Regulation, L.I. 1509, and relevant prior empirical studies. IASC standards were consulted because they are perceived as indexes of best practice which are likely to meet not only the needs of international investors, who hold majority of the shares of listed companies in the GSE, but also domestic investors. The accounting and reporting regulations in Ghana indicated the minimum information needed by investors. It was logical, therefore, to include regulatory requirements in a model to be used for the evaluation of the extent of disclosure and also to afford analysis of the degree of compliance. Prior research served as a source of establishing information items which were relevant and important but were not available from the sources indicated above.

The initial list of 182 items of information was reviewed by one financial analyst and one professional accountant in industry in Ghana as to their usefulness to an investor and after being pre-tested on ten of the annual reports analysed. Based on the reviewers' comments and observations from the pretesting, some of the initial items were dropped while new items which were suggested were included. Modifications to the initial list of 182 information items were influenced by difficulty in judging applicability to companies, lack of relevance in the Ghana context and uncertain or diminished usefulness.

The disclosure items were compiled at a high level of disaggregation. This was necessary in order to capture the relative intensity of information disclosure and also to reduce the level of subjectivity in awarding scores. The final disclosure checklist used, which is included as Appendix 3, consisted of 156 items of information. These comprised 113 items which were mandatory at one time or the other from 1988-1997, 43 items which were voluntary in all the ten years studied, and 96 items required by IASC standards. The 156 items of information were also sorted into eight categories. These were general company information, financial review, non-financial and social information, value added information, accounting policies, cash flow information, profitability information and state of affairs information as detailed in Table 9.4.

Table 9.4: Classification of Disclosure Items

Category of information	Overall	Mandatory	Voluntary	IASC standards
	no.	no.	no.	no.
Company background information	10	8	2	3
Financial review	11	0	11	0
Non-financial and social information	12	0	12	0
Value added	6	0	6	0
Accounting policies	14	14	0	14
Cash flow	9	9	0	9
Profitability	25	19	6	16
State of Affairs	68	62	6	54
Total	156	113	43	96

[1] Mandatory items varied over the period, 1988-1997, in accordance with changes in regulation

9.6.3 PROCUREMENT OF ANNUAL REPORTS

A written request, provided as Appendix 4, was made to companies for their annual reports. This was then followed by personal visits and collection of the reports. In addition, where company sources were not forthcoming, annual reports were obtained from the RGD, company registrars, the GSE, brokerage firms and auditors of the company. A research assistant was employed to make the requisite contacts and collect the annual reports. The written request was done to elicit support for the study, especially as interviews were envisaged. All of the required 150 annual reports were obtained for analysis. This was made up of annual reports for the 15 companies for ten years, 1988-1997.

9.6.4 IDENTIFICATION OF ACCOUNTING MEASUREMENT METHODS

Accounting measurement methods that companies had used were ascertained from the annual reports. These were ascertained from accounting policies, notes to the accounts and the financial statements. To confirm non-disclosure or non-applicability of any accounting measurement item, the entire annual report of each company was read in line with the recommendation of Cooke [1989a]. The Cooke's approach was complemented by studying company records at the RGD, the GSE, brokers, company registrars and company sources. A declared methods was scored 'yes'. If no methods was disclosed for an item, it was scored 'nd'. Where an item was not applicable, it was scored 'na'. A score sheet, provided as Appendix 5, was prepared for each company.

9.6.5 SCORING OF DISCLOSURE ITEMS

Measurement or quantification of financial disclosure presents problems. Cooke and Wallace [1989: 51] have observed:

> "Financial disclosure is an abstract concept and cannot be measured directly. It does not possess inherent characteristics by which one can determine its intensity or quality like the capacity of a car. It is therefore essential, whatever scale one adopts to quantify disclosure, to provide evidence that the measures are valid and reliable by specifying the scoring procedure"

An approach to measuring financial disclosure has been suggested by Copeland and Fredericks [1968]. They indicate that "a way of developing a scoring scheme to capture levels of disclosure is to cite the number of words used to describe an item. In this regard, disclosure score will vary from zero to one on a scale" [Copeland and Fredericks, 1968: 109]. This approach, however, as recognised by the authors, presents difficulty regarding the meanings and clarity of words, which in turn leads to subjectivity in the awarding of scores. It was therefore not used in this study.

The scoring of items in this study followed a modified dichotomous procedure. In this approach, companies were compensated for non-disclosure of items which did not apply to them as in some earlier studies (see Buzby, 1972; Wallace, 1987; Cooke, 1989a, 1989b, 1991,1992, 1996; Hossain et al., 1994, 1995). An item was given a score of *1* if disclosed and *0* if it was not disclosed. A company was not penalised for non-disclosure of an item where the item was not relevant to it. This relative scoring procedure which was used provided a more realistic assessment of corporate disclosure than a strict dichotomous approach. Since the disclosure checklist was highly disaggregated and great efforts were made to establish whether or not an item was relevant to a company, the possibility of bias in the scoring of items was likely to be minimal. In determining the relevance of an item of information to a company and its disclosure by it, a procedure similar to the one followed in the identification of accounting measurement methods, was adopted. A score sheet, in the form included as Appendix 6, was prepared for each company.

9.6.6 INTERVIEW QUESTIONS

Since in-depth probing of issues was necessary, open questions were asked. The rationale for and advantages of open questions have been captured by May [1997: 11]:

> "...the interviewer...can seek both clarification and elaboration on the answers given. This enables the interviewer to have more latitude to probe beyond the answers and thus enter into dialogue with the interviewer".

The questions asked, which are contained in Appendix 7, were developed after reviewing literature on the subject and evaluating a majority of the annual reports of the sample companies.

9.6.7 ACCESS TO RESPONDENTS

Organisations included in the study were located in four cities in Ghana, namely Accra, Tema, Kumasi and Takoradi. Telephone calls were, as a first step, made to the organisations to identify prospective respondents and agree on interview appointments. In a few instances where telephone calls did not give the desired outcome, personal visits were made to fix interview appointments. Former students, professional colleagues and friends of the researcher were used as the initial contacts.

The purpose and form of the interview was explained to a prospective respondent. In addition to the academic purpose, the relevance of the study in furtherance of the development of financial reporting and the capital market in Ghana was explained to the prospective respondent. It was also considered important to make respondents aware that the study was not being sponsored by the Ghana Government. This was necessary against a backdrop of the predecessor military Government, from which currently the ruling party emerged, investigating companies in the past, which sometimes resulted in confiscations or expropriation. It was therefore thought that corporate executives might be sceptical about studies perceived to be sponsored by the Government, such that valid responses might be elusive without allaying any fears they might have. Respondents were also told during the briefing that their opinions and participation in the study were important to its success and assured of the anonymity of their individual responses in reporting the findings.

After consenting to take part in the study, the date, time and place of the interview were agreed with the prospective respondent and recorded in the researcher's field diary. Subsequently, a letter (see Appendix 8) setting out the objectives of the study and the questions to be investigated was sent to the prospective interviewee personally or by fax.

The interview questions were given to the respondent in advance of the interview for two main reasons: Firstly, it was supposed to serve as a reminder to the prospective respondent of the impending interview. Secondly, it was intended to give the prospective respondent an idea of the questions or issues to be addressed during the interview so that he or she might give some thought to them before the interview took place.

On or before the date of the interview, the researcher telephoned, where possible, to confirm the interview appointment previously agreed with the prospective respondent. This enabled cancellations of appointments to be noted and rescheduled, helping to save resources which might have been used to make unfruitful trips.

9.6.8 INTERVIEWING PROCESS

Although a telephone interview is relatively more effective in minimising interviewer bias, it was discounted as a methods in favour of face-to-face interviews. It was the view of this researcher that some respondents might not have had the enthusiasm to be engaged on the telephone for about one and a half hours, being the estimated duration of the interviews. Even if a respondent was prepared to engage in a telephone conversation for the estimated time, it was thought that the frequency of interruptions during the interview due to the respondent's official work, was likely to be greater if the researcher was not physically present than otherwise. The lack of reliable telephone systems in Ghana could also have hampered telephone interviews.

A semi-structured interviewing approach was used to balance the dangers of limiting the scope of the discussion through a structured interview or making it too general and less focused by relying on unstructured interview. Questions were not necessarily asked in the order in which they appeared in the schedule given to respondents. Depending on initial exchanges, the researcher proceeded to ask questions. In all cases, however, all of the questions listed in the schedule were covered. Respondents were also encouraged to bring up any relevant issues or information not listed in the interview schedule. To minimise researcher bias during the interview, it was ensured that the researcher avoided influencing the thoughts of respondents by not signalling approval or disapproval to answers given.

9.6.9 DURATION AND PERIOD OF INTERVIEW

The interviews were conducted between 6 July 1998 and 25 September 1998 and lasted on average, between one hour and one and a half hours, depending on the issues considered and the category of respondents. On completion of each interview, the permission of a respondent was sought to quote or refer to his or her comments in writing the thesis.

9.6.10 POST-INTERVIEW MANAGEMENT

Subsequent to the interviews, the researcher wrote (see Appendix 9) to thank respondents for participating in the study. This was done to express appreciation to respondents for participating in the study and also to create an opportunity for a possible re-entry, if the need arose.

9.7 OPERATIONLISATION OF EXTENT OF DISCLOSURE AND OBSERVANCE OF IASC STANDARDS

9.7.1 EXTENT OF DISCLOSURE IN ANNUAL REPORT

Financial disclosure may be defined as "...any deliberate release of financial information, whether numerical or qualitative, required or voluntary, or via formal or information channels" [Gibbins et al., 1990: 122]. The importance of information items disclosed is judged by their relevance and the extent to which the needs of users are met. This criterion establishes the quality or adequacy or extent of disclosure. As Wallace [1987: 433] has observed:

> "Quality or adequacy of disclosure refers to the standard of excellence as measured along a continuum from excellent to poor. It is the ability of financial reports to meet minimum acceptable standards of disclosure- or the ability of such reports to fulfil the needs or requirements of each user group or groups of users."

Several meanings can be ascribed to the term "quality" and it is a function of time, place and the user. In this study, quality of disclosure was operationalised as the extent that the information items in Appendix 3 were disclosed in annual reports of the sample companies in Ghana. This is consistent with definitions used in earlier studies[4].

The extent of financial disclosure of companies was defined in terms of overall or total disclosure, compliance with mandatory requirements and voluntary disclosure. Overall disclosure was defined as disclosure of all relevant items of information. This comprised mandatory items and voluntary items and was measured by an overall disclosure index. Mandatory disclosure consisted of items of information which were required by the Ghana Companies Code, GSE listing regulations and GNASBSs and was measured by a mandatory disclosure index. Voluntary disclosure was made up of information items which were not required by any of the accounting regulations in Ghana and was measured by voluntary disclosure index.

9.7.2 OBSERVANCE OF IASC STANDARDS

This study did not seek to measure compliance with IASC standards. It rather measured the extent to which disclosure in annual reports in Ghana

[4] see Singhvi [1967], Singhvi and Desai [1971], Buzby [1972], Firth [1979b], McNally et al. [1982], Chow and Wong-Boren [1987], Wallace [1987], Cowen et al.[1987], Nicholls and Ahmed [1995].

conformed to IASC standards. Observance of IASC standards in this study should be viewed in terms of the extent to which the disclosure in annual reports is in line with IASC standards. This was measured by a conformity index derived in the same way as the disclosure index.

9.8 DEFINITION OF INDEX OF DISCLOSURE

An index of disclosure is a quantitative measure of the extent of disclosure in one number at a point in time or for a period. It measures the degree of disclosure of an item or group of items or all items of information by enterprises within a country or across countries. An index of disclosure gives an indication of the degree of importance enterprises attach to an item or group of items of information. In aggregate, an index of disclosure is a measure by which the level of financial reporting of individual or groups of companies in one country or countries can be compared. The derivation of disclosure indexes used in this study are explained in Section 9.10.

9.9 UNWEIGHTED DISCLOSURE SCORES

The level of importance which is attributable to a disclosure item varies according to entities, transactions or events, users, company, industry, country and the time a study is undertaken [Cooke and Wallace, 1989: 51]. Obviously, therefore, rating the importance of a disclosure item is not only judgmental but can be problematic. One way of establishing the importance of disclosure items is to weight them. Weights may be determined subjectively, through replication of weights used in previous studies, or average weights obtained through pooling of opinions or ratings in a questionnaire survey.

A weighted index tends to give an indication of the extent to which items deemed relatively important to users are disclosed. Thus, weights are suggestive that some disclosure items are more important than others. To this extent, companies would be expected to disclose more important items. This assumption is probably right as evidenced by results of empirical studies into information needs of users. However, assignment of weights by users is subjective and can provide a misleading picture. On the other hand, a key assumption underlying an unweighted disclosure index is that all disclosure items are of equal importance. To compensate for the limitations of either weighted or unweighted disclosure scores, both can be used in the same study. Evidence of application of both weighted and unweighted disclosure models in a single study is provided by Barrett [1977], Buzby [1974], Chow and Wong-Boren [1987] and Adhikari and Tondkar [1992].

Unweighted indexes are appropriate when research is directed at all users of corporate annual reports, rather than any specific user group [Cooke, 1989a]. Although this study focuses on investors, unweighted indexes were not judged to be unsuitable for the reasons given below. It was assumed that each item of information is equally important once considered relevant to the investor. Moreover, since a large number of items of disclosure was considered in this study, it was expected that companies would be ranked in the same way, irrespective of whether the items were weighted or not [Wallace, 1987; Gray et al., 1995]. As noted by Wallace [1987: 453], "it does not matter what scoring technique is used as long as the items of disclosure are many and wide ranging." It is also the case that companies that are better at disclosing "important" items are also better at disclosing "less important" items. "In effect, enterprises neither emphasise the trivial nor ignore the important in their disclosure policies, given that disclosure items differ profoundly in their relevance to different user groups" [Wallace, 1987: 624].

Chow and Wong-Boren [1987] and Adhikari and Tondkar [1992] provide proof that there may not be a significant difference between weighted and unweighted disclosure indexes. Weights do not usually affect the real economic consequences to the subjects whose opinions were pooled [Chow and Wong-Boren, 1987] nor do they reflect stable perceptions on similar information items across subjects, over time and from similar subjects across countries [Firer and Meth, 1986; Wallace et al., 1994]. Given the highly disaggregated items used in this study, weighting was seen, as argued by Cooke [1989a], Rauffournier [1995] and Choi [1973] as a potential source of personal bias, hence, its rejection. The use of an unweighted index disclosure approach in this study is consistent with earlier studies by Copeland and Fredericks [1968], Chow and Wong-Boren [1987], Wallace [1987], Cooke [1989a, 1989b, 1991,1992, 1996], Freedman and Stagliano [1992], Chamisa [1994], Nicholls and Ahmed [1995], Ahmed and Nicholls [1995], Hossain et al. [1994, 1995], Gray et al. [1995], Meek et al. [1995] and Rauffournier [1995].

9.10 DERIVATION OF DISCLOSURE INDEXES

9.10.1 DISCLOSURE INDEX FOR AN ITEM OF INFORMATION

An index of disclosure for an item of information for a set of accounts is derived as a ratio of the number of companies disclosing an item to the number of companies to whom the item is relevant. This index, which is unweighted and additive, is derived as

$$D_i = \frac{\sum_{j=1}^{n_i} d_{ij}}{n_i}$$

where,

D_i = the disclosure index for the ith information item

d_{ij} = 1 if ith information item is disclosed and 0 if not disclosed by the jth company

n_i = number of companies to whom item ith item is relevant, i.e. $n_i \leq 15$.

9.10.2 DISCLOSURE INDEX FOR A COMPANY

An index of disclosure for a company is a ratio of the actual score awarded to it, to the maximum score that it is expected to earn [Cooke 1989a, 1989b]. The maximum score that a company is expected to earn for a set of accounts is also additive and unweighted. This is derived as

$$M_j = \sum_{i=1}^{n} d_{ij}$$

where,

M_j = the maximum score that the jth company can earn

d_{ij} = 1 if the i th information item is relevant and 0 if not relevant to the jth company

n = number of information items. $n \leq 156$ for overall disclosure; $n \leq 113$ for mandatory disclosure; $n \leq 43$ for voluntary disclosure; $n \leq 96$ for observance of IASC standards; etc.

The total disclosure (TD_j) score for the jth company is additive and unweighted. This is derived as

$$TD_j = \sum_{i=1}^{M_j} d_{ij}$$

where,

TD_j = total disclosure score for the jth company

d_{ij} = 1 if the ith relevant information item is disclosed and 0 if not disclosed by the jth company

M_j = the maximum number of items of information the jth company is expected to disclose.

The total index for the jth company, I_j, is derived as TD_j / M_j [Cooke, 1989a].

9.11 FACTORS INFLUENCING FINANCIAL REPORTING INVESTIGATED

Corporate financial disclosure is affected by factors which are internal and external to firms. These factors are firm size, sources of capital, employees, culture, press pressures, accounting regulation, type of ownership, direct cost of information production, competitors reaction, political pressures, multinationality of operations, international influences, auditors, profitability, industry type, listing status, degree of multinationality, degree of foreign operations, type of management and organisational structure. The relationship between corporate financial disclosure and some of the above influences have been examined empirically[5]. The factors which are

[5] see Singhvi [1967], Singhvi and Desai [1971], Buzby [1972], Firth [1979b], McNally et al. [1982], Chow and Wong-Boren [1987], Wallace [1987], Cowen et al.[1987], Cooke [1989a, 1989b, 1991,1992, 1996], Wallace et al.[1994], Nicholls and Ahmed [1995], Hossain et. al.

investigated in any study depend on the availability of data, among other factors.

This study examined the relationship between corporate disclosure and firm size, listing status and accounting regulation in Ghana. The development of capital market, proxied by listing status, and introduction of accounting regulations in Ghana during the period studied afforded an opportunity to evaluate their impact on financial reporting including the observance of IASC standards. In addition to accounting regulation and listing status, the scope of the data made it possible to also examine the impact of size on financial reporting.

The effect of auditors was not investigated since all but one of the sample companies were audited by the " Big Six" international auditing firms. None of the sample companies was a multinational or had any significant foreign operations to warrant investigation into the impact of multinationality or foreign involvement on disclosure. Industry effect and type of ownership were not examined in view of small sample sizes for the relevant categories. Profitability was not considered since it was likely to have been interrelated with size, proxied by assets, such that the true association between them would have been difficult to arrive at [Buzby, 1972; Firth

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[1994, 1995], Gray et al.[1995], Gray and Vint [1995], Meek et al.[1995], Raffournier [1995], Salter and Niswander [1995], and Neu et al. [1998].

1979b]. Finally, only a few of the companies studied used long-term debt and as such the leverage factor was not recognised as important among the companies studied.

9.12 TESTING OF HYPOTHESES

9.12.1 CONCENTRATION INDEXES

In a pioneering and pathbreaking work, van der Tas [1988] developed formulae for the computation of the degree of harmonisation of accounting methods. Relying on measures used by industrial economists to quantify industrial concentration, he developed and applied three indexes, namely, the H index, C index and I index to measure harmonisation of accounting methods on an item-by-item basis. Subsequently, Tay [1989], Tay and Parker [1990], Emenyonu [1993], Emenyonu and Gray [1992,1996], Hermann and Thomas [1995], Archer et al. [1995] and Murphy [1996] have attempted to measure harmonisation either in the domestic or international context relying on the initial work of van der Tas.

Industrial concentration measures actual market structures using the two extremes of monopoly and perfect competition as the reference points [van der Tas, 1988; Tay, 1989; Tay and Parker, 1990; Emenyonu, 1993]. In a monopoly situation, all sales are generated by one firm in a particular market. In a perfect competition, however, many firms sell in a particular market. The accounting counterpart of a monopolistic market is a situation of uniformity of practice which implies that "one strictly defined accounting methods is used by all companies" [Tay and Parker 1990: 82]. The accounting counterpart of perfect competition can be regarded as a situation in which every company is free to use a different accounting methods.

A reduction in the number of alternative methods used to treat an accounting measurement item contributes to comparability or harmonisation of financial reports. "However, the degree of harmony depends not only on the number of accounting methods used, but the extent to which each methods is used. "[Thus], comparability can be considered as an increase in the degree of consensus concerning the choice between the alternative methods of accounting for an item in financial reports" [van der Tas, 1988: 159]. In accounting harmonisation, therefore, the relevant variables to measure are the number of accounting methods and the number of companies using each methods. In effect, the measurement of harmonisation or comparability aims to ascertain the popularity of accounting methods among companies for any particular item.

A number of formulae are available for the computation of concentration indexes. Tay [1989] and Emenyonu [1993] provide a detailed review of the derivation of these indexes in their doctoral theses. Using a concentration index appears to be a useful approach to evaluate the level of harmony at a point in time and a view of harmonisation over time. However, "the main problem with concentration indices is that no significant tests have been devised to indicate how trivial or significant (statistically) variations in index values are" [Tay and Parker, 1990: 83]. At the present level of research, there is not yet an accepted benchmark for determining what constitutes a necessary level of harmony for the purposes of comparability and as such the significance of index scores remains a matter of judgement [Emenyonu and Gray, 1996].

9.12.2 Herfindhal-Hirschmann Index (H Index)

Since this study is concerned with the measurement of domestic harmonisation or comparability of accounting methods, a formula of interest was the H index. The H index is calculated by weighting the relative frequencies of the alternative options or methods against each other. In this regard, high relative frequencies receive higher weighting than low relative frequencies. The frequency of a methods represents the number of companies choosing it. The relative frequency is the number of companies choosing a particular methods divided by the total number of companies involved. The H index rises when the methods used by companies concentrate more on one or a few alternatives. The formulae of the Herfindhal-Hirschmann index is

$$H = \sum_{i=1}^{n} P_i^2$$

where

H = Herfindhal-Hirschmann index

n = number of alternative accounting methods

P_i = the relative frequency of accounting methods i.

The value of the H index fluctuates between *0* and *1* indicating the degree of harmonisation or disharmonisation. There will be no harmony where the H index is *0* signifying an infinite number of alternative accounting methods with the same frequencies. Total or absolute harmony is obtained where the H index is *1*, indicating that all companies use the same methods. Where only two accounting methods are differentiated or identified, "the rough methods of only taking into account the relative frequency of the accounting methods most applied leads to the same conclusion as the application of the H index" [van der Tas, 1988: 160]. On the other hand, the H index is a more refined and robust methods for the measurement of harmony or harmonisation if more than two alternative accounting methods used by companies can be distinguished.

The H index commands a number of advantages. It is simple to derive and interpret. It also gives more information than the rough methods of using the relative frequency of the most applied accounting methods or methods by companies. However, the H index is limited by its inability to take account of multiple reporting since each company can only be assigned to one of the alternative accounting methods. The C index, a variant of the H index, derived by van der Tas [1988] which addresses the issue of multiple reporting is not covered in this study for lack of relevance to the available data.

In this study, the H index was computed for each relevant item of accounting for each year. An average H index was also derived for each item for the relevant periods as required by Hypotheses 3 and 4. In testing the hypotheses, changes in the average H indexes for each item for the relevant periods were computed. A change in the H index was established as either an increase (+) or decrease (-) in the index from one period to another.

9.12.3 Choice of Nonparametric Statistics

In testing a hypothesis requiring the use of statistical techniques, a choice has to be made between parametric and nonparametric tests. Parametric tests should normally be considered first as they are more robust than nonparametric tests [Kinnear and Gray, 1997; Howell, 1997]. However, parametric tests require more rigid assumptions about population distribution, sample sizes and data measurement scale than nonparametric tests. For a parametric test to be used, sample sizes should be large i.e. not less than 30, populations should be normally distributed and data should be measured on an interval scale. If the above conditions are not met, then nonparametric statistics are appropriate [Howell, 1997; Kinnear and Gray, 1997]. Kinnear and Gray, [1997: 138-139] Have observed:

> "where there are serious violations of the assumptions of the t-test, nonparametric tests can be used instead. They should not be used as a matter of course, however, because should the data meet the requirements of the t-test, the comparable nonparametric test may lack the power to reject the null hypothesis should that be false. It is best, therefore, to consider the parametric test first resorting to the nonparametric alternative only if data seriously violate the requirements."

The sample of company annual reports for each year did not exceed 15. The sample was small which violated one of the assumptions underlying the use of parametric statistics. Some data were also measured using an ordinal scale. In testing of Hypotheses 1, 2, 5, 6, 7, 9, 10 and 11 which required statistical tests, nonparametric statistics were appropriate and therefore were used. The nonparametric tests which were used were the Chi-Square test, Sign test, Spearman's rank correlation test and Kendall's tau b test. A description and justification for the use of each of the above listed tests are discussed next.

9.12.4. CHI-SQUARE TEST

The Chi-Square (χ^2) test was used to test the existence of differences in accounting measurement methods of the sample companies as stated in

Hypotheses 1 and 2. The aim of this test was to evaluate consistency in accounting measurement methods from one period to another. The Chi-Square test was found appropriate because the data analysed were measured at the nominal level.

The Chi-Square statistic is derived mathematically as follows:

$$\chi^2 = \sum \frac{(O-E)}{E}$$

where

O = observed frequency in each category

E = expected frequency in each category.

Statisticians are not agreed on the minimum sample size for which the Chi-Square test must be used. Howell [1997: 152], for example, has noted:

> "...difficulties arise when we have small expected frequencies but the question of how small is small remains. Those conventions that do exist are conflicting and have minimal claims to preference over one and other. Probably the most common is to require that all expected frequencies should be at least five. This is a conservative position and I occasionally violate it."

As demonstrated in the literature, a Chi-Square test can be performed on sample sizes as low as eight with valid results [Camilli and Hopkins, 1979; Howell, 1997].

In this study, the Chi-Square test was performed for periods. The relevant periods were low accounting period versus high accounting period on one hand, and pre-listing period versus post-listing period, on the other. In this regard, the chi-square tests are based on an assumption of inter-temporal independence of observations.

9.12.5 Sign Test

The Sign test and the Wilcoxon matched-pairs signed rank test were appropriate tests for the evaluation of the existence of significant changes in disclosure from one period or event to another arising from the separate effects of a GSE listing and introduction of accounting regulations. Individually, these events created related (matched) groups as evident in Hypotheses 6, 7, 10 and 11.

Although the Wilcoxon matched-pairs signed rank test is the most popular nonparametric test for matched groups, it was dropped in favour of the latter in view of the scope of the data analysed. Both tests use data measured on the ordinal scale which have been converted from the interval scale. The Wilcoxon matched-pairs signed rank test is, However, sensitive to populations which are symmetrically distributed about their means and vulnerable to the influences of outliers [Howell, 1995; Kinnear and Gray, 1997].

The Sign test can be solved by a binomial probability or a goodness-of-fit Chi-Square [Howell, 1997]. The applicable formula for binomial probability is as

$$P(X) = C_X^N \, P^x q^{(N-X)} = \frac{N!}{X!(N-X)!} P^x q^{(N-X)}$$

where

$P(X)$ = the probability of X successes

N = the number of trials

P = the probability of a success on any one trial

q = (1 - P) = the probability of a failure on any one trial

C_X^N = the number of combinations of N things taken X at a time [Howell, 1997: 121].

The goodness-of-fit Chi-Square is derived by using the formulae for Chi-Square provided in Section 9.12.4.

9.12.6 Spearman's Rank Correlation Test and Kendall's tau b Correlation Test

The Spearman's rank correlation coefficient and Kendall's tau b correlation test were used to measure the correlation between firm size proxied by sales and disclosure as required in Hypotheses 5 and 9. These tests measure the strength of association between ranks and not the values of the variates that have been ranked [Daniel and Terrell, 1995]. In Spearman's rank correlation coefficient, ranks are treated as scores in calculating the correlation between two sets of ranks. The Kendall's tau b correlation is based on the number of inversions in the rankings.

The Spearman's rank correlation coefficient is derived as

$$rho = 1 - \frac{6 \Sigma d_i^2}{n (n^2 - 1)}$$

where,

rho = the Spearman's rank correlation coefficient

d_i = differences between paired ranks

n = sample size (number of observations).

The Kendall's tau b correlation coefficient is computed as

$$r = \frac{2(\text{Number of inversions})}{N (N - 1)/2}$$

where

r = Kendall's tau b

N(N-1)/2 = number of pairs of objects.

The Spearman's rank correlation and the Kendall's tau b tests were used because the parametric correlation tests were not suitable for the scope of the data in this study. Kinnear and Gray [1997: 234] argue that if the, "Pearson correlation is unsuitable as a measure of the strength of association between two quantitative variables which have been measured at the interval level, the scores on both variables be converted to ranks and the Spearman's rank correlation calculated instead."

The same authors argue that the "Kendall's tau correlation's have advantages over the Spearman's correlation's, especially with small data sets in which there are tied assignments where serviceable p-values can still be obtained" [Kinnear and Gray, 1997: 235]. Kendall's tau b test was therefore used together with the Spearman's rank correlation coefficient test to deal with the problems posed by possible ties should some existed. The two tests are not as powerful as a parametrical correlation test in measuring the degree of association between variates as they are unable to deal with the problem of multicollinearity to remove any spurious effects.

9.13 DEFINITION OF PERIODS

9.13.1 UNLISTED AND LISTED PERIODS

Since the companies studied were listed on the GSE in different years, there was the possibility that the disclosure practices of those listed earlier and/or the regulations of the GSE could have positively influenced the disclosure levels of companies which listed later. This was more likely to be so for companies which anticipated a listing on the GSE. To control this, tests were conducted for periods which were common to all the companies. This was necessary also in order not to reduce further the small sample size of the companies studied. The relevant periods for testing the effects of capital market development or listing status on differences in and comparability of accounting measurement methods and disclosure were then defined as 1988-1989 and 1996-1997. The period 1988-1989 was the period before listing on the GSE (pre-listing period) whereas 1996-1997 was the period after listing on the GSE (post-listing period). All the sample companies were unlisted from 1988-1989 but were listed from 1996-1997 as can be seen from Table 9.1.

9.13.2 LOW ACCOUNTING REGULATION AND HIGH ACCOUNTING REGULATION PERIODS

In addition to the Ghana Companies Code, Act 179, which was in force before 1988, the commencement year for this study, additional regulations were introduced in 1991 and 1994 by the GSE and the ICAG respectively. The ICAG also announced the adoption of GNASBSs in February 1994 [IGAG, 1994] and proceeded to organise seminars to educate members on the standards during the same year[6]. The seminars were organised throughout 1994 and as such some members of the ICAG might have known of GNASBSs rather late. In view of this, 1994 was excluded from the analysis. The impact of GNASBSs on accounting measurement methods and disclosure was therefore assessed with effect from 1995. The effect of GSE listing regulations was, however, assessed from 1991 since the legislative instrument which had been completed in 1990 was signed into law in January 1991.

The period for the assessment of the impact of accounting regulation on financial reporting was dichotomised as 'low accounting regulation period' and 'high accounting regulation period'. The specification of the two periods differed for accounting measurement methods, on one hand, and disclosure and observance of IASC standards, on the other. This was so because while GNASBSs introduced many new accounting measurement requirements, GSE listing regulations did not. As a result, the effect of new accounting regulation on measurement practices could be tested only after the introduction of GNASBSs, i.e. with effect from 1995. In this case, the low accounting regulation period covered 1988-1993 while the high accounting regulation period was defined as 1995-1997.

[6] This was confirmed during an interview with the Registrar/Chief Executive of the ICAG, Mr. R. A. Brown, on 13 July 1998 in Accra.

Since both GSE listing regulations and GNASBSs were concerned with disclosure, the impact of new accounting regulations on disclosure was evaluated with effect from 1991. Consequently, the low accounting regulation period was specified as 1988-1990 while the high accounting regulation period was defined as 1991-1997. Within the high accounting period, two sub-periods were defined in line with successive introduction of accounting regulations. The first sub-period was 1991-1993 when GSE listing regulations prevailed in addition to the Ghana Companies Code, Act 1963. The second sub-period was 1995-1997 when additional requirements over the 1991-1993 levels were introduced by GNASBSs.

9.14 PROCESSING OF DATA

The data in this study were processed using the SPSS version 7.5 package which offered all the required statistical techniques.

9.15 CONCLUSION

This chapter has described and discussed the procedures and techniques used to collect and analyse data in this study. Appropriate statistical models for testing the hypotheses generated in chapter VIII have been identified. In view of the small sample sizes, nonparametric statistics were used to test the hypotheses which required application of statistical techniques. The H index developed by van der Tas [1988] was used to evaluate the comparability of financial reports. The results and findings of the study are reported in the next five chapters.

CHAPTER X

ACCOUNTING MEASUREMENT REGULATIONS AND PRACTICES IN GHANA

10.1 INTRODUCTION

This chapter reports the results of investigations into fifteen accounting measurement practices of companies in Ghana over a period of ten years, 1988-1997. The issues investigated are valuation of stock-in-trade, assignment of cost to stock-in-trade, valuation of tangible fixed assets, depreciation of tangible fixed assets, translation of foreign currency transactions, translation of balances held in foreign currency, treatment of translation differences, valuation of long-term investments, and accounting for deferred taxation. Valuation and depreciation of tangible fixed assets are analysed separately for property, plant and machinery, and equipment, while two categories of long-term investments, namely, trade investments and investment properties, are considered. Accounting for deferred taxation arising from revaluation of tangible fixed assets, on one hand, and different capital allowances and depreciation rates, on the other, were considered separately.

This study involved a survey of regulatory requirements and practices of companies pertaining to the accounting measurement items listed above. Four hypotheses on the frequency of use and comparability of accounting measurement methods used by the companies surveyed in Ghana were tested. These were:

Hypothesis 1
There are no significant differences in the accounting measurement methods used by companies in Ghana in the period of low accounting regulation compared to the period of high accounting regulation.

Hypothesis 2
There are no significant differences in the accounting measurement methods used by companies in Ghana in the period before listing compared to the period after the listing on the Ghana Stock Exchange.

Hypothesis 3
There are no changes in the comparability of accounting measurement methods used by companies in Ghana from the period of low accounting regulation to the period of high accounting regulation.

Hypothesis 4
There are no changes in the comparability of accounting measurement methods used by companies in Ghana from the period before listing to the period after listing on the Ghana Stock Exchange.

The findings are reported after this introduction. Regulatory requirements and methods used by companies for each of the accounting measurement items are presented in section 10.2. Comparability of the accounting methods used are reported in section 10.3. The results are summarised and discussed in section 10.4. Section 10.5 is the concluding section.

10.2 ACCOUNTING MEASUREMENT METHODS IN GHANA: REGULATION AND PRACTICES

10.2.1 VALUATION OF STOCK-IN-TRADE

The bases of valuation of stock-in-trade in Ghana are contained in Sections 15 and 19 of the Fourth Schedule of the Ghana Companies Code(1963) Act 179 and GNASBS 8. The Code provides that the value of an asset shall not be greater than market value, after deduction of expenses incurred, in order to realise it or its expected contribution to the business by sale or in the ordinary course of business. Under GNASBS 8, stock-in-trade is valued at the lower of cost and net realisable value. The cost of stock-in-trade comprises all costs of purchase, cost of conversion and other costs incurred in bringing the stocks to their present location and condition. Net realisable value is derived as the estimated selling price in the ordinary course of business less the estimated cost of completion necessary to make the sale. The requirement for the valuation of stock-in-trade under the Ghana Companies Code is equivalent to the requirement under GNASBS 8 and IASC standard No. 2 on the subject.

All the companies studied disclosed their policy for valuation of stock-in-trade from 1988-1997 as reported in Appendix 10. In line with GNASB and IASC standards, stock-in-trade was valued at the lower of cost and net realisable value in each year by all the companies studied. The popularity of the lower of cost and net realisable value basis of valuation of stock-in-trade in Ghana is consistent with findings in Denmark, Kuwait, Germany, UK, Belgium, France, Ireland, and the Netherlands [Comiskey and Mulford, 1991; Al-Hajeri, 1992; Emenyonu and Gray, 1992; Emenyonu, 1993; Herrmann and Thomas, 1995] but inconsistent with findings in Portugal [Herrmann and Thomas, 1995].

10.2.2 METHODS FOR ASSIGNING COST TO STOCK-IN-TRADE

The Ghana Companies Code does not specify methods for assigning cost to stock-in-trade. This situation means that companies can select any method deemed relevant to their operations. This was the position from 1963, when the Companies Code was enacted, until 1 January, 1995 when GNASBS 8 was formulated. Under GNASBS 8, "Inventories of items that are not ordinarily interchangeable and goods and services produced and segregated for specific projects should be accounted for by using specific identification of individual costs" [GNASBS 8: 6]. The first-in, first-out (FIFO) and the weighted average cost (WAC) methods are prescribed for all other types of inventories.

IAS 2, formulated in 1976, allowed a number of formulas for assigning cost to inventories, namely, FIFO, WAC, last-in, first-out (LIFO), next-in, first-out (NIFO), base stock, latest purchase price and specific identification of individual costs. With the exception of NIFO and latest purchase price methods, which are based on historical cost, all the formulas for assigning cost to inventories use costs that have been incurred by the enterprise at one time or another. Revised IAS 2, which became effective from 1995, permits the use of all the formulas for assigning cost to inventories under the earlier standard it superseded except the base stock and the NIFO methods. Furthermore, the current standard stipulates that the preferred or benchmark methods are FIFO and WAC. The LIFO methods is given as an alternative to the benchmark formulas. When LIFO is used, the difference between the amount of inventories as shown in the balance sheet and either the lower of the amount arrived at using the benchmark treatment or the lower of current cost at the balance sheet date and net realisable value is required to be disclosed.

While the Ghana Companies Code gives preparers of financial statements freedom to choose methods for assigning cost to inventories as appropriate for their firms, the IASC standards and GNASBS 8 restrict the choices that can be made. GNASBS 8 is, however, more restrictive than the previous and the current IAS 2 as it disallows LIFO which is permitted under the latter. Regulation regarding the formulas for assigning cost to inventories in Ghana from 1988-1994 was more flexible than from 1995-1997.

As can be seen from Appendix 10, disclosure of accounting policy for methods used to assign cost to inventories was not very forthcoming from companies although an improvement occurred over the ten years studied. From 1988 to 1990, a majority of 9 (60%) companies did not disclose policy on methods for assigning cost to stock-in-trade. Some improvement in disclosure occurred between 1994 and 1996 with a majority of 8 (53.3%) companies disclosing their policy. In 1997, however, a minority of 7 (47.7%) companies made such disclosures. The low disclosure of inventory cost formulas in Ghana is consistent with findings in Denmark [Comiskey and Mulford, 1991], Kuwait [Al-Hajeri, 1992], France, Germany, Japan, UK and USA [Emenyonu and Gray, 1992; Emenyonu, 1993].

Table 10.1: Methods for assigning cost to stock-in-trade in Ghana: 1988-1997

Year	First-in-First-Out		Weighted Average Cost		Total	
	no.	%	no.	%	no.	%
1988	4	66.7	2	33.3	6	100.0
1989	4	66.7	2	33.3	6	100.0
1990	4	66.7	2	33.3	6	100.0
1991	4	57.1	3	42.9	7	100.0
1992	4	57.1	3	42.9	7	100.0
1993	4	57.1	3	42.9	7	100.0
1994	5	62.5	3	37.5	8	100.0
1995	5	62.5	3	37.5	8	100.0
1996	5	62.5	3	37.5	8	100.0
1997	4	57.1	3	42.9	7	100.0

Two methods namely, FIFO and WAC, were used to assign cost to inventories by companies which disclosed their policy. The relative use of methods for assigning cost to inventories in Ghana is presented in Table 10.1. A majority of companies showed preference for the FIFO method. From 1988 to 1990, 66.7% of companies used the FIFO method declining to 57.1% in 1992 and 1993, increasing thereafter to 62.5% from 1994-1996 before declining to the 1992-1993 level in 1997. A minority (33.3%) of companies used the WAC method in 1988 increasing to 42.9% in 1997.

The two methods, FIFO and WAC, used to assign cost to inventories were in conformity with IASC and GNASB standards. The use of the FIFO method by a majority of companies in Ghana is consistent with the findings in Denmark and UK but inconsistent with trends found in France, Japan, and Portugal where the WAC method is more popular and Germany and Belgium where LIFO appears more dominant [Comiskey and Mulford, 1991; Emenyonu and Gray, 1992; Emenyonu, 1993; Herrmann and Thomas, 1995].

10.2.3 VALUATION OF TANGIBLE FIXED ASSETS

The rules for valuation of tangible fixed assets (property, plant and equipment) in Ghana are contained in Sections 13-20 of the Fourth Schedule of the Ghana Companies Code, Act 179, and GNASBS 9. Land is the only category of fixed assets expressly specified to be disclosed under

Section 14 of the Companies Code though Section 13 provides that classes of assets, including tangible fixed assets, are to be distinguished to indicate their general nature as appropriate to a company's business. The Code requires that no class of assets should be stated in the balance sheet at a value greater than could reasonably be expected to be realised in the market after deduction of expenses incurred towards its realisation, or which is reasonably justified by the expected contribution of the assets to the business, whether by sale or in the ordinary course of business or otherwise. Section 17 of the Code specifies that the gross value of tangible fixed assets should be stated at original cost or replacement value.

GNASBS 9 allows two main bases of valuation of tangible fixed assets. As a benchmark treatment, tangible fixed assets should be initially recorded at cost with any subsequent statement of the carrying amount at the lower of cost less any accumulated depreciation and recoverable amount. The carrying amount of a tangible fixed asset is required to be reviewed periodically in order to assess whether its recoverable amount is not lower than the carrying amount. As an alternative treatment, GNASBS 9 permits the statement of a tangible fixed asset at its fair value at the date of revaluation less any subsequent depreciation. Fair value is usually market value determined by appraisal normally undertaken by professional valuers or through assessments by directors using market prices or replacement cost indices. The valuation rules under GNASBS 9 are consistent with the Ghana Companies Code.

The first IASC standard on the valuation of tangible fixed assets, IAS 16 "Accounting for Property, Plant and Equipment" became effective on 1 March, 1982 and was superseded by IAS 16 "Property, Plant and Equipment" on 1 January, 1995. The bases of valuation of tangible fixed assets under the original and current IAS 16 are the same as under GNASBS 9 and the Ghana Companies Code.

All companies disclosed their policy for valuation of tangible fixed assets as reported in Appendix 10. Companies generally classified tangible fixed assets into three broad categories. These were land and buildings (property), plant and machinery, and equipment (comprising mainly motor vehicles and office and bungalow furniture and equipment) each of which is analysed separately.

Market value was used in valuing property by a majority of companies in Ghana from 1988-1997 as can be seen from Table 10.2. In 1988, a majority 13 (86.7%) companies used market value while a minority 2 (13.3%) used historical cost to value property. Increasing from 86.7% in 1988, by 1991 all companies used market valuation for property until 1995 when one company, UTC Estates of Ghana Limited, switched back to historical cost.

Pioneer Aluminium Factory Limited, one of the two companies which used historical cost valuation in 1988 and 1990, disclosed in the notes to the accounts that it revalued its tangible fixed assets in 1985 but had not incorporated the revalued amounts in its financial statements. There was a clear preference for market valuation over the historical cost basis of valuation of property in the ten years, 1988-1997.

Table 10.2: Basis of valuation of Property in Ghana: 1988-1997

Year	Historical Cost		Market Value		Total	
	no.	%	no.	%	no.	%
1988	2	13.3	13	86.7	15	100.0
1989	2	13.3	13	86.7	15	100.0
1990	1	6.7	14	93.3	15	100.0
1991	0	0.0	15	100.0	15	100.0
1992	0	0.0	15	100.0	15	100.0
1993	0	0.0	15	100.0	15	100.0
1994	0	0.0	14	100.0	14	100.0
1995	1	6.7	14	93.3	15	100.0
1996	1	6.7	14	93.3	15	100.0
1997	1	6.7	14	93.3	15	100.0

A majority of companies used market value while a minority used historical cost to value plant and machinery as indicated in Table 10.3. In 1988, 8 (53.3%) companies used market value compared to 7 (46.7%) which used historical cost. The majority trend in the use of market value persisted in the ten years, increasing steadily from 53.3% in 1988 to 66.7% in 1993 before declining to 64.3% in 1994 and 60% from 1995-1997.

Table 10.3: Basis of valuation of Plant and Machinery in Ghana: 1988-1997

Year	Historical Cost		Market Value		Total	
	no.	%	no.	%	no.	%
1988	7	46.7	8	53.3	15	100.0
1989	7	46.7	8	53.3	15	100.0
1990	7	46.7	8	53.3	15	100.0
1991	5	33.3	10	66.7	15	100.0
1992	5	33.3	10	66.7	15	100.0
1993	5	33.3	10	66.7	15	100.0
1994	5	35.7	9	64.3	14	100.0
1995	6	40.0	9	60.0	15	100.0
1996	6	40.0	9	60.0	15	100.0
1997	6	40.0	9	60.0	15	100.0

The choice between historical cost and market value bases for valuation of equipment from 1988-1997 was almost equal as reported in Table 10.4. Between 1988 and 1990, a majority of companies used the historical cost valuation. However, this trend reversed from 1991-1993 with a majority of companies using the market value basis as a result of two companies switching from using historical cost. In 1994, an equal number of companies used the historical cost and market value to value equipment. From 1995 to 1997, a majority 8 (53.3%) companies used historical cost to value equipment.

Table 10.4: Basis of valuation of Equipment in Ghana in 1988-1997

Year	Historical Cost		Market Value		Total	
	no.	%	no.	%	no.	%
1988	6	40.0	9	60.0	15	100.0
1989	6	40.0	9	60.0	15	100.0
1990	8	53.3	7	46.7	15	100.0
1991	7	46.7	8	53.3	15	100.0
1992	7	46.7	8	53.3	15	100.0
1993	7	46.7	8	53.3	15	100.0
1994	7	50.0	7	50.0	14	100.0
1995	8	53.3	7	46.7	15	100.0
1996	8	53.3	7	46.7	15	100.0
1997	8	53.3	7	46.7	15	100.0

The methods of valuation of tangible assets used by the companies surveyed were consistent with IASC standards and regulation in Ghana. On the whole, the revaluation basis proxying as the market valuation, was a more popular basis of valuation of tangible fixed assets than the historical cost basis from 1988-1997. None of the companies used only historical cost valuation. Six (40%) companies applied only the market value while 9 (60%) adopted a combination of historical cost and market value over the period investigated. While in respect of property there was near uniformity in the valuation basis used by companies, the trend was different for plant and machinery and equipment. Revaluation of tangible fixed assets was done by professional valuers or based on assessments by directors or a combination of both.

The popularity of market valuation of tangible fixed assets found in Ghana is consistent with findings in Denmark, Ireland, the Netherlands, Portugal and the UK but inconsistent with trends in France, Germany, Japan and USA, Belgium and Kuwait where historical cost valuation was more widely used [Comiskey and Mulford, 1991; Al-Hajeri, 1992; Emenyonu and Gray, 1992; Emenyonu, 1993; Herrmann and Thomas, 1995].

Market valuation of tangible fixed assets was influenced by a high level of inflation in Ghana. For the period covered by this study, inflation averaged over 30% per annum. The following extracts from the Annual Reports of two of the companies surveyed indicate that inflationary pressures were a motivating factor in the valuation of tangible fixed assets in Ghana:

> "It is the practice of the Directors to arrange for revaluation of the properties, plant and machinery of the Company from time to time to take account of increased values of *inflation.*" (emphasis added) [Annual Report of Guinness Ghana Limited, 1990: 11].

> "During the year the Company's buildings were revalued on the basis of a report by a professional valuer, in order to show them in the books and accounts at more *realistic replacement values.* Plant and machinery were revalued by directors at 31 December, 1988 by means of indices derived from relevant official statistics of *increases in cost of new* plant and machinery over past years." (emphasis added) [Annual Report and Accounts of Kumasi Brewery Limited, 1988: 4].

10.2.4 DEPRECIATION OF TANGIBLE FIXED ASSETS

The first IASC standard dealing with depreciation accounting, IAS 4 "Depreciation Accounting", became effective on 1 January, 1977 and remained in force until 1 January, 1995 when it was superseded by a revised IAS 4. Unlike the original IAS 4, the revised IAS 4 deals with depreciation of intangibles only. However, IAS 16 currently in force provides guidance for depreciation of tangible fixed assets. Like the original IAS 4, under IAS 16 the depreciable amount of a depreciable asset should be allocated on a systematic basis over its useful life. The basis used should reflect the pattern in which the economic benefits of the asset are consumed by the enterprise. A consistent application of the method of depreciation selected for tangible fixed assets from period to period is required irrespective of the level of profitability of the enterprise and of taxation considerations, unless altered circumstances justify a change. It is also required that in an accounting period in which the method of depreciation is changed, the quantitative effect and the reason(s) for the change should be disclosed.

The Ghana Companies Code, GNASBS 9 and GNASBS 10 are the sources of regulation of depreciation of tangible fixed assets in Ghana. GNASBS 10 follows the requirements of the original IAS 4 while the depreciation requirements of GNASBS 9 reflect in every respect those contained in IAS 16. The Companies Code, GNASBS 9 and GNASBS 10 do not specify methods to be used to depreciate tangible fixed assets but do require disclosure of the methods used in financial statements. The IASC standards, GNASBS 10 and the Ghana Companies Code afford preparers of financial statements the freedom to choose methods to depreciate tangible fixed assets.

As indicated in Appendix 10, all the companies studied disclosed their policy of depreciation of tangible fixed assets from 1988-1997. Two methods, namely, straight-line and reducing balance, were used. A majority

Table 10.5: Methods of Depreciation of Property in Ghana: 1988-1997

Year	Straight-line		Reducing balance		Total	
	no.	%	no.	%	no.	%
1988	14	93.3	1	6.7	15	100.0
1989	14	93.3	1	6.7	15	100.0
1990	14	93.3	1	6.7	15	100.0
1991	13	86.7	2	13.3	15	100.0
1992	14	93.3	1	6.7	15	100.0
1993	14	93.3	1	6.7	15	100.0
1994	13	92.9	1	7.1	14	100.0
1995	14	93.3	1	6.7	15	100.0
1996	14	93.3	1	6.7	15	100.0
1997	14	93.3	1	6.7	15	100.0

of 14 (93.3%) companies used the straight-line method while only a minority one (6.7%) company used the reducing balance method to depreciate property as reported in Table 10.5. In 1991, Super Paper Products Company Limited switched from the straight-line method to the reducing balance method increasing the number of companies using the latter to 2 (13.3%) and consequentially decreasing the latter to 13 (86.7%). The trend reversed to the 1990 level in 1992 and persisted through to 1997 when Metalloplastica Ghana Limited abandoned the reducing balance method for the straight-line method. A large majority of companies used the straight-line method to depreciate property in the ten years, 1988-1997.

Methods of depreciation were similar for both plant and machinery and equipment. For both categories of fixed assets, the straight-line method was more popular than the reducing balance method with a majority of companies using the former as can be seen from Table 10.6. From 1988-1990, a majority of 12 (80%) companies used the straight-line method as against a minority of 3 (20%) companies which used the reducing balance method to depreciate plant and machinery and equipment. From 1991-1997, however, a reduced majority of companies (73.3%) used the straight-line method. This was due to Super Paper Products Company Limited switching to the reducing balance method.

Table 10.6: Methods of Depreciation of Plant and Machinery and Equipment in Ghana: 1988-1997

Year	Straight-line		Reducing balance		Total	
	no.	%	no.	%	no.	%
1988	12	80.0	3	20.0	15	100.0
1989	12	80.0	3	20.0	15	100.0
1990	12	80.0	3	20.0	15	100.0
1991	11	73.3	4	26.7	15	100.0
1992	11	73.3	4	26.7	15	100.0
1993	11	73.3	4	26.7	15	100.0
1994	10	71.4	4	28.6	14	100.0
1995	11	73.3	4	26.7	15	100.0
1996	11	73.3	4	26.7	15	100.0
1997	11	73.3	4	26.7	15	100.0

Eleven (73.33%) companies used the straight-line method only while one (6.67%) company adopted the reducing balance method only to depreciate all categories of fixed assets from 1988-1997. Three (20%) companies used a combination of straight-line and reducing balance methods using the former to depreciate land and buildings and the latter for plant and machinery and equipment. The popularity of the straight-line method of depreciation of tangible fixed assets in Ghana is consistent with findings in UK, France, USA, Denmark, Kuwait, Ireland, the Netherlands, Portugal and Belgium but inconsistent with trends observed in Germany and Japan

[Comiskey and Mulford, 1991; Al-Hajeri, 1992; Emenyonu and Gray, 1992; Emenyonu, 1993; Herrmann and Thomas, 1995].

10.2.5 FOREIGN CURRENCY TRANSLATION

The requirements for the translation of foreign currency transactions in Ghana are prescribed by the Ghana Companies Code and GNASBS 19. Section 35 of the Fourth Schedule of the Ghana Companies Code simply states that "the basis on which foreign currencies have been converted into Ghanaian money" should be disclosed in the accounts. Although the Code appears to be concerned with the rates used to translate foreign currency transactions and balances denominated in foreign currency, it does not specify any method for their derivation. GNASBS 19 provides rules which are exactly the same as under IAS 21 dealing with the translation of foreign currency transactions. Companies in Ghana enjoyed considerable flexibility in translating foreign currency transactions and balances during the period 1988-1994 as the Companies Code, which was then the only regulation, was silent on the methods to use for translation. In 1995-1997, however, the requirements of GNASBS 19 which were equivalent to IAS 21 were applicable.

GNASBS 19 deals with accounting for foreign currency transactions in the financial statements and the translation of the financial statements of foreign operations into a single reporting currency for the purpose of including them in the financial statement of the reporting enterprise. The initial recognition of transactions in foreign exchange is required to be recorded at the rate prevailing on the date on which the transaction took place. This is often referred to as the spot rate. For practical purposes, a rate that approximates the actual rate at the date of the transaction (e.g. average rate for a period, say a week) is permitted. In circumstances where the exchange rate fluctuates significantly, however, the average rate is deemed unreliable.

Foreign currency monetary items which exist at the balance sheet date are to be translated at the closing rate except where forward exchange contracts have been entered into to establish amounts of the reporting currency required or available at the settlement dates. If a company hedges its transactions in the short-term, the forward rates specified in the related foreign currency contracts may be used as the basis for measuring and reporting the transactions. GNASBS 19 requires further that non-monetary items, which are carried in terms of historical cost denominated in a foreign currency, are reported using the exchange rate at the date of the transaction, while non-monetary items carried at fair value denominated in a foreign currency are to be reported using the exchange rates that existed when the values were determined.

Monetary and non-monetary assets and liabilities of foreign entities are required to be translated using the closing rate. Income statement items of a foreign entity are to be translated at the spot rate. The closing rate may, however, be used if a foreign entity reports in the currency of a hyperinflationary economy. Financial statements of a foreign entity that is affected by high rates of inflation are to be adjusted for the effects of changing prices before being translated.

All monetary items of foreign operations that are integral to the operations of the parent are to be translated using a closing rate except those covered by foreign exchange contracts in the parent's currency. Monetary items covered by forward contracts are required to be translated using the closing rate if gains and losses on the forward contracts are separately measured, the spot rate existing at the inception of the forward contract, or the forward rate applicable to contracts involving short-term transactions. Non-monetary items are translated using the requirements applicable to the parent enterprise discussed above. Income statement items are translated at actual rates or an average rate.

As reported in Appendix 10, some companies did not disclose policy on the translation of foreign currency transactions and balances. In 1988, 6 (40%) companies did not disclose policy on translation of foreign currency transactions. However, 3 (20%) companies did not disclose policy on translation of balances denominated in foreign currency in the same year. By 1994 and thereafter, all companies disclosed their policy on translation of balances denominated in foreign currency. Regarding translation of foreign currency transactions, however, 5 (33.3%) companies did not disclose their policy from 1994-1997. Non-disclosure of policy for foreign currency translation observed in Ghana was also consistent with findings in Kuwait [Al-Hajeri, 1992], Denmark, Ireland and Portugal [Herrmann and Thomas, 1995].

As none of the companies surveyed was a multinational or had foreign operations, the translation of financial statements of foreign entities or foreign operations was not encountered. Translation of transactions and balances denominated in foreign currency were relevant to all the companies surveyed. All the companies which provided information on translation methods used the spot rate and the closing rate to translate foreign currency transactions and balances held in foreign currency respectively. Thus, the findings indicate uniformity of practices from 1988-1997. The methods used to translate transactions and balances held in foreign currency by the companies studied conformed to IASC standards and regulation in Ghana. The findings in Ghana are consistent with findings in Kuwait [Al-Hajeri, 1992], Belgium, Denmark, France, Germany, Ireland, the Netherlands, Portugal and UK [Herrmann and Thomas, 1995].

10.2.6 TREATMENT OF TRANSLATION DIFFERENCES

The Ghana Companies Code is silent over the treatment which must be accorded exchange differences arising on translation of foreign currency transactions and balances. GNASBS 19, however, provides requirements which are similar to those required under IAS 21. From 1988-1994, companies in Ghana had considerable flexibility in treating exchange differences since the Companies Code, which was then the only regulation in force, had not prescribed any requirement. From 1995-1997, however, the requirements of GNASBS 19 which are equivalent to IAS 21 were applicable.

Under GNASBS 19 exchange differences arising from settlement of monetary items e.g. payment of loans, receipts from debtors, etc. and reporting on monetary balances, are included in income for the period, except for those arising from unhedged severe devaluation or depreciation of the reporting currency. It is required further that exchange differences arising from a monetary item which forms part of an enterprise's investment in a foreign entity, or is a foreign currency liability used to hedge such net investment, should be included in equity to be released as income or expenses when the investment is disposed of. Exchange differences arising from the translation of long-term foreign currency monetary items are normally required to be treated in the income statement during the financial year. However, such differences may be deferred and written off over the remaining lives of the monetary items to which they relate, provided that it is envisaged that exchange losses will not be recurring in future. Where as a result of an unhedged severe devaluation of a currency, liabilities incurred on an asset recently acquired cannot be settled, exchange differences arising as a result may be capitalised as part of the cost of the related asset provided that the adjusted cost does not exceed the lower of replacement cost and the amount recoverable from the use or sale of the asset.

GNASBS 19 requires also that all exchange differences which arise from the translation of the financial statement of a foreign entity should be included in equity until the disposal of the net investment in the foreign entity when it can be recognised as income or expense. Exchange differences arising from the translation of the financial statements of a foreign operation which are deemed an integral part of a parent company are required to be treated in income of the period. However, exchange differences arising from a long-term monetary item may be deferred and written off over its life. Exchange differences due from a severe devaluation or depreciation may be included in the related asset under the circumstances already discussed in respect of the parent company.

Disclosure of policy on treatment of exchange differences was not forthcoming from companies in Ghana as reported in Appendix 10. Disclosure was as low as 20% in 1988 though it improved over the ten years. It was, however, from 1994-1996 that a majority (53.3%) of companies disclosed their policy on the treatment of foreign exchange differences. All companies which disclosed their policy included in income the exchange differences arising on the translation of foreign currency transactions and balances other than foreign currency loans used to acquire assets which had not been hedged against steep depreciation in Ghana's currency. The companies surveyed in Ghana exhibited uniformity in treating exchange differences in income for the period. The inclusion in income and assets of exchange differences by companies was also in accord with the requirements of IASC and GNASB standards.

Two companies, Accra Brewery Limited and Aluworks Limited, capitalised exchange differences arising from foreign currency loans used to finance fixed assets. Accra Brewery Limited reports:

> "Exchange differences arising on conversion of foreign loans used to finance assets which have not been commissioned at balance sheet date are charged to the relevant capital work-in-progress account." [Accra Brewery Limited, Annual Report 1995: 16].

The treatment which was used by Accra Brewery Limited presupposes that capitalisation of exchange differences ceases after completion of construction work which was in contrast to the treatment followed by Aluworks Limited. Aluworks Limited capitalised exchange differences as part of the cost of plant, machinery and equipment as long as the foreign loans contracted for the acquisition remained outstanding. The capitalisation of exchange losses as part of asset cost was partly a consequence of the steep devaluation of the Ghanaian currency, the cedi[1]. The desire of management to smooth earnings also underlined the capitalisation of exchange losses as gathered from interviewing executives of Accra Brewery Limited and Aluworks Limited (see Appendix 1), the two companies which capitalised exchange losses as part of asset cost.

10.2.7 VALUATION OF LONG-TERM INVESTMENTS

Investments may be classified as current or long-term. Trade investments and investment properties fall into the category of long-term investments. The Ghana Companies Code, Act 179, mentions trade investments as one of the categories of fixed assets to be disclosed separately in the balance sheet. There is no specific mention of investment properties but it can be inferred to be part of other classes of fixed assets which are to be disclosed under sections 13 and 14 of the Code. GNASBS 23 provides accounting and valuation rules for investments in Ghana. The requirements of GNASBS 23 are similar to the requirements of IAS 25. The bases of valuation of tangible fixed assets under GNASBS 9 and the Ghana Companies Code discussed already are applicable to trade investments and investment properties.

[1] The Ghanaian currency, the cedi, exhibited a permanent decline in its value averaging over 25% per annum from 1988-1997. This resulted in massive exchange losses to companies which had used foreign currency loans to finance acquisitions of fixed assets.

Under GNASBS 23, long-term investments are carried in the balance sheet at either cost, revalued amounts, or in the case of marketable securities at the lower of cost and market value determined on a portfolio basis. As a further requirement, where investments are revalued, a policy on the frequency of revaluations should be adopted. In keeping with the consistency principle, all long-term investments should be revalued frequently and at the same time. The carrying amount of all long-term investments, or at the minimum an entire category, should be reduced to recognise a permanent decline in value on an individual basis. GNASBS 23 recommends that in addition to the methods described above, investment properties may be carried in the balance sheet at amounts determined in accordance with GNASBS 9 discussed in section 10.2.3.

Nine (60.0%) companies reported trade investments from 1988-1997. All these companies disclosed their policy on trade investments in the statement of accounting policies or gave an indication of the method used in the notes to the accounts. Quoted and unquoted trade investments were valued at historical cost by all the companies, indicating uniformity in practice which was in accord with the requirements in Ghana and under IASC standards. The valuation of unquoted trade investments at cost is consistent with findings in Denmark [Comiskey and Mulford, 1991].

Only 3 (20.0%) companies reported investment properties for which market valuation was used. The three companies and the relevant years in which they reported investment properties in their accounts were CFAO Ghana Limited (1990-1997), UTC of Ghana Limited (1990-1995) and Unilever Ghana Limited (1988-1997). These companies expressly stated that they used IAS 25 as revealed in the following accounting policies:

> "As from 1st January 1990, the company adopted a policy of not depreciating its investment properties in accordance with International Accounting Standard No. 25." [CFAO (Ghana) Limited, Annual Report - December 1994: 10].

> "With effect from 1990, the company has adopted the provisions of International Accounting Standard No. 25 in so far as they relate to the treatment of Investment properties. Accordingly, investments in land and buildings which are not substantially in the trading operations of the company are treated as Investment Properties. Investment Properties are revalued periodically on the basis of their individual open market values, and the established values are incorporated in the accounts." [UTC of Ghana Limited, Report and Accounts 31st December, 1992: 9].

> "The company complies with the provisions of the International Accounting Standard No. 25 in so far as it relates to the treatment of investment properties. An investment property is defined as investment in land and/or buildings that are not substantially for use by or in the operations of the company. Investment properties are valued at 31 December, and the established values are reflected in the balance sheet." [Unilever Ghana Limited, Report & Financial Statements 1996: 16].

The method of valuation of investment properties by the three companies was not only uniform but conformed to the regulations in Ghana and IASC standards.

10.2.8 ACCOUNTING FOR DEFERRED TAXATION

The Ghana Companies Code does not give indications as to the methods to be used to account for deferred taxation. The 4th Schedule of the Code requires that "the amounts of the charges and credits, if any, for income tax showing, by way of note or otherwise, the amount of each distinct tax with description thereof and a statement of the period in respect of which is payable" shall be separately stated in the profit and loss account. In the balance sheet, the Code requires the disclosure of each class of income tax liability in respect of different fiscal periods. GNASBS 14 has, unlike the Code, specified methods for accounting for deferred taxation which are similar to the requirements of IASC standards. Thus, a more permissive treatment of deferred taxation prevailed from 1988-1994 than from 1995-1997.

GNASBS 14 further provides that the tax expense for a period should be determined using either the deferral or liability method. Under the deferral method, the tax effects of current timing differences are deferred and allocated to future periods when timing differences reverse. The deferred tax balances in the balance sheet are not rights to receive or obligations to pay money and as such are not adjusted to reflect changes in the tax rate or imposition of new taxes. The current tax rate is used to determine the tax effects of timing differences originating in the current period while the previous rates used for any tax effects are used for subsequent adjustments to or reversals of previous timing differences in the current period. Tax expense for a period, under the deferral method, comprises provision for taxes payable and the tax effects of timing differences deferred to or from other periods.

The expected tax effects of current timing differences are determined and reported either as liabilities for taxes payable in the future or as assets representing advance payments of future taxes under the liability method. The balances of deferred taxes are adjusted for changes in the tax rate or for new taxes imposed which may also be adjusted for expected future changes in tax rates. Tax expense for a period under the liability method is made up of provision for taxes payable, the amount of taxes expected to be payable or considered to be prepaid in respect of timing differences originating or reversing in the current period, as well as adjustments to deferred tax balances in the balance sheet necessary to reflect either a change in the tax rate or the imposition of new taxes.

Revaluation of an asset may give rise to charges or credits in accounting income which may not be permitted under tax rules. GNASBS 14 permits three treatments. One treatment is to transfer the tax effect related to the carrying value of the asset from the revaluation account to the deferred tax balance thus not reflecting it in income. As another treatment, the tax effect may be reflected in tax expense and a corresponding amount transferred from the deferred tax balance to the revaluation account. Finally, the amount of the potential tax effect arising from the revaluation may be disclosed in the notes to the financial statements. It is required further that the tax effect accounting method should normally be applied to all timing differences which implies a full provision for deferred tax. However, when it is envisaged that timing differences will not reverse for a considerable period, at least three years, tax expense for a period may exclude the tax effects of such timing differences, giving effect to partial provision of deferred tax.

Two sources of timing differences were identified in Ghana as reported in Appendix 10. One was timing differences arising from differences in capital allowances rates allowed by the tax authority in Ghana, the IRS, and depreciation rates used by the companies. The other was timing differences arising from capital gains on revaluation of tangible fixed assets. The two sources of timing differences were analysed separately.

Tax effect accounting in respect of timing differences arising from revaluation of tangible fixed assets were generally not treated in the accounts of companies in Ghana. All companies which disclosed policy in this regard exhibited uniformity in practice which was the lack of provision for deferred taxation in their accounts. This trend can plausibly be argued to be due to the fact the companies did not intend, from a pragmatic perspective, to dispose of the revalued assets. This view is captured in the following policy statement of Unilever Ghana Limited:

> "Provision is not regarded as necessary and is not made for deferred taxation in respect of taxes which would become payable if revalued fixed assets are sold at their enhanced values." [Unilever Ghana Limited, Report & Financial Statements, 1996: 16].

Four methods were used by companies to account for deferred taxation arising from differences in capital allowances rates offered by the IRS and depreciation rates used by companies in Ghana. These were 'no provision', 'full provision using liability method', 'full provision without indication of

Table 10.7: Deferred Taxation arising from differences in capital allowances and depreciation rates in Ghana: 1988-1997

Year	No provision		Partial provision liability		Full Provision liability		Full provision no method		Total	
	no.	%	no.	%	no.	%	no.	%	no.	%
1988	4	57.1	0	0.0	1	14.3	2	28.6	7	100.0
1989	4	57.1	0	0.0	1	14.3	2	28.6	7	100.0
1990	4	57.1	0	0.0	1	14.3	2	28.6	7	100.0
1991	4	57.1	0	0.0	1	14.3	2	28.6	7	100.0
1992	4	50.0	0	0.0	1	12.5	3	37.5	8	100.0
1993	2	25.0	1	12.5	1	12.5	4	50.0	8	100.0
1994	3	33.3	0	0.0	2	22.2	4	44.5	9	100.0
1995	3	33.3	0	0.0	2	22.2	4	44.5	9	100.0
1996	3	33.3	0	0.0	2	22.2	4	44.5	9	100.0
1997	3	33.3	0	0.0	2	22.2	4	44.5	9	100.0

application of either the liability or deferral method' and 'the partial provision using liability method'. The extent to which each of the four methods was used in 1988-1997 is reported in Table 10.7. A majority (57.1%) of companies did not provide for deferred taxation arising from timing differences in depreciation rates and capital allowances rates from 1988-1991 as against a minority (42.9%) which made a provision in their accounts. In 1992, companies were equally split between providing and not providing for deferred taxation. From 1993-1997, a majority (66.7%) of companies provided for deferred taxation. The companies which provided for deferred taxation showed a preference for the full provision approach with a majority not disclosing whether they used the liability or deferred method. Only one company, Pioneer Tobacco Company Limited, used the partial provision approach in 1993.

Generally, the companies surveyed were not consistent in the methods used to account for deferred taxation from 1988-1997. Unilever Ghana Limited provided fully for deferred taxation using the liability method over the ten years. Kumasi Brewery Limited also provided fully for deferred taxation but did not disclose the method used from 1988-1993 while it used the liability method from 1994-1997. Four companies switched from 'no provision' to 'full provision' for deferred liability, but did not disclose the method of accounting in some years. These four companies and the relevant years indicated against their names were Paterson Zichonis Ghana

Limited (1988-1997), Mobil Oil Ghana Limited (1993-1997), Guinness Ghana Limited (1992-1997) and Accra Brewery Limited (1994-1997).

10.3 COMPARABILITY OF ACCOUNTING MEASUREMENT METHODS IN GHANA

10.3.1 CONSISTENCY OF ACCOUNTING MEASUREMENT METHODS

The Chi-Square test was used to establish the extent to which significant differences existed among the accounting measurement methods used by the sample companies in Ghana for each measurement or valuation item at the 5% level of significance. The test measured the degree of consistency of accounting measurement methods from one period to another.

Two tests were conducted. The first test evaluated the effect of introduction of accounting regulation on accounting measurement methods. In this regard, accounting measurement methods used by the companies surveyed in the period 1988-1993 were compared with those applied in the period 1995-1997. The second test examined the impact of capital market development, proxied by the listing status of companies, on accounting measurement methods. The relevant periods for analysis were determined as 1988-1989 and 1996-1997 when all the companies studied were unlisted and listed respectively.

Uniformity of practices was obtained on the following items: valuation of stocks-in-trade, translation of foreign currency transactions, translation of balances held in foreign currency, treatment of translation differences, valuation of trade investments, valuation of investment properties and deferred taxation arising from timing differences in respect of revalued fixed assets over the entire period studied. For these items, there were no differences in the methods used in the period of low accounting regulation compared to the period of high regulation, nor in the pre-listing period and the post-listing period. In effect, neither the introduction of accounting regulation nor listing status influenced the choices of accounting measurement methods. Consequently, Hypothesis 1 and Hypothesis 2 are affirmed for the above listed items.

The Chi-Square test was performed for the accounting measurement items on which uniformity of practice was not obtained. These items were: valuation of property, valuation of plant and machinery, valuation of equipment, depreciation of property, depreciation of plant and machinery, depreciation of equipment, assignment of cost to stocks-in-trade and deferred taxation arising from different depreciation and capital allowances rates.

Results of the Chi-Square test are reported in Table 10.8. It is revealed that there were no significant differences in the methods of accounting used in the period of low accounting regulation compared to the period of high accounting regulation. Similarly, no significant differences in methods were observed for the pre-listing period compared to the post-listing period for the six items. The results suggest a lack of significant impact of accounting regulation and listing status on the accounting measurement methods used by the companies surveyed. Thus, the sample companies were consistent in the accounting measurement methods used over the periods studied.

Table 10.8: Impact of Accounting Regulation and Listing Status on Choice of Accounting measurement methods in Ghana- Test of Significant Differences[1]

	Accounting Regulation		Listing Status	
Item	χ^2	Asymp. Probability	χ^2	Asymp. Probability
Valuation of Property	0.066	0.797	0.201	0.654
Valuation of Plant and machinery	0.000	1.000	0.271	0.602
Valuation of Equipment	0.727	0.397	1.071	0.301
Depreciation of Property	0.040	0.842	0.000	1.000
Depreciation of Plant and Machinery and Equipment	0.603	0.437	0.373	0.542
Deferred Tax arising from different deprecation and capital allowances rates	1.890	0.169	1.814	0.178
Assignment of Cost to Stock-in-trade	0.003	0.958	0.127	0.722

[1]Inter-temporal independence of observations is assumed.

10.3.2 CONCENTRATION OR POPULARITY OF ACCOUNTING MEASUREMENT METHODS

The comparability of accounting measurement methods in Ghana was assessed using H indexes. The yearly H indexes for each item are reported in Appendix 11. Table 10.9 summarises the average H indexes for each accounting measurement item for four periods, namely, the period

Table 10.9: Impact of Accounting Regulation and Listing Status on Comparability of Accounting measurement Methods in Ghana

	Impact of Regulation			Impact of Listing		
	col. 1	col. 2	col. 3	col. 4	col. 5	col. 6
Accounting measurement item	1988-1993	1995-1997	change (1-2)	1988-1989	1996-1997	change (4-5)
	H index	H index	H index	H index	H index	H index
Valuation of stock-in-trade	1.0000	1.0000	0.0000	1.0000	1.0000	0.0000
Translation of foreign currency transactions	1.0000	1.0000	0.0000	1.0000	1.0000	0.0000
Translation of balances held in foreign currency	1.0000	1.0000	0.0000	1.0000	1.0000	0.0000
Treatment of exchange differences	1.0000	1.0000	0.0000	1.0000	1.0000	0.0000
Valuation of trade investments	1.0000	1.0000	0.0000	1.0000	1.0000	0.0000
Valuation of Investment properties	1.0000	1.0000	0.0000	1.0000	1.0000	0.0000
Deferred taxation arising from capital gains on revalued fixed assets	1.0000	1.0000	0.0000	1.0000	1.0000	0.0000
Valuation of property	0.9022	0.8756	-0.0266	0.7689	0.8756	+0.1067
Depreciation of property	0.8578	0.8756	+0.0178	0.8756	0.8756	0.0000
Depreciation of plant and machinery	0.6445	0.6089	-0.0356	0.6800	0.6089	-0.0711
Depreciation of equipment	0.6445	0.6089	-0.0356	0.6800	0.6089	-0.0711
Methods for assigning cost to stock-in-trade	0.5329	0.5243	-0.0086	0.5556	0.5208	-0.0349
Valuation of plant and machinery	0.5289	0.5200	-0.0089	0.5022	0.5200	+0.0178
Valuation of equipment	0.5081	0.5022	-0.0119	0.5200	0.5022	-0.0178
Deferred tax arising from different depreciation and capital allowances rates	0.4032	0.3580	-0.0452	0.4286	0.3580	-0.0706

of low accounting regulation (1988-1993), the period of high accounting regulation (1995-1997), pre-listing period (1988-1989) and post-listing period (1996-1997). Changes in comparability in methods between the periods 1988-1993 and 1995-1997 on the one hand, and 1988-1989 and 1996-1997 on the other, are also presented in Table 10.9.

From Table 10.9, it is observed that uniformity of practices prevailed during the period of low accounting regulation and the period of high accounting regulation on seven items. These seven items were: valuation of stock-in-trade, translation of foreign currency transactions, translation of balances held in foreign currency, treatment of exchange differences, valuation of trade investments, valuation of investment properties and deferred taxation arising from capital gains on revalued fixed assets. An H index of 1.0000 was recorded for each of the seven items in each of the two periods indicating that there was no change in the level of comparability between the periods. It is concluded that increased accounting regulation in the period 1995-1997 did not alter the uniformity of methods used by companies which existed in the earlier period of low accounting regulation, 1988-1993.

The period of high accounting regulation, however, witnessed decreased comparability compared to the period of low accounting regulation for seven items. For the seven items, the H indexes decreased in the period of high accounting regulation, 1995-1997, from the levels in the period of low accounting regulation, 1988-1993. Thus, Hypothesis 3 is not supported for the seven items which were: assignment of cost to stock-in-trade (-0.0086), valuation of plant and machinery (-0.0089), depreciation of plant and machinery (-0.0356), depreciation of equipment (-0.0356), valuation of equipment (-0.0119), valuation of property (-0.0266), and deferred taxation arising from different depreciation and capital allowances rates (-0.0452). Similarly, there was lack of support for Hypothesis 3 for one item, depreciation of property whose H index increased by 0.0178 in the period of high regulation from the level recorded in the period of low accounting regulation.

There was no change in the H index, signifying a lack of alteration in the level of comparability, in eight items, while three items decreased and two items increased in comparability in the post-listing period from the pre-listing period levels. There was therefore a partial support for the Hypothesis 4. Uniform practices were obtained in the pre-listing and post-listing periods indicating no change in comparability of accounting methods for seven items. These were: valuation of stock-in-trade, translation of foreign currency transactions, translation of balances held in foreign currency, treatment of translation differences, valuation of trade investments, depreciation of property, valuation of investment properties and deferred taxation arising from capital gains on revalued fixed assets. An H index of 1.0000 was recorded in each of the pre-listing and the post-listing periods for each of the seven items indicating the absence of a change in comparability. There was also no change in the comparability of methods of depreciation of property which recorded an H index of 0.8756 in the two periods. In effect, listing status did not alter methods of accounting used by the companies studied for the eight items for which Hypothesis 4 is affirmed.

Five items experienced reduced comparability evidenced by a decrease in the H index in the post-listing period from the pre-listing period. These five items were: assignment of cost to stock-in-trade (-0.0349), depreciation of plant and machinery (-0.0711), depreciation of equipment (-0.0711), deferred taxation arising from different depreciation and capital allowances rates (-0.0706) and valuation of equipment (-0.0178). Comparability for two items increased in the post-listing period compared to the pre-listing period. The two items were valuation of property (+0.1067) and valuation of plant and machinery (+0.0178). Hypothesis 4 is rejected for the seven items which increased or decreased in comparability after the GSE listing.

10.4 SUMMARY OF RESULTS AND DISCUSSION

Uniformity of practice was observed among companies on seven of the fifteen items investigated from 1988-1997. These were: valuation of stock-in-trade, valuation of trade investment, valuation of investment properties, translation of foreign currency transactions, translation of foreign currency balances, treatment of translation differences and deferred taxation arising from capital gains due to revaluation of fixed assets. The eight items on which there was no uniformity of practice were methods for assigning cost to inventories, valuation of property, valuation of plant and machinery, valuation of equipment, depreciation of property, depreciation of plant and machinery, depreciation of equipment and deferred taxation arising from different capital allowances and depreciation rates. A majority of companies, however, used FIFO to assign cost to inventories, revalued all classes of tangible fixed assets and depreciated all classes of tangible fixed assets using the straight-line method from 1988-1997.

The introduction of GNASBSs and the development of the capital market in Ghana did not alter significantly accounting measurement methods used by the companies studied. Neither were changes in comparability among companies experienced on all the accounting measurement methods investigated. In effect, the companies surveyed had adopted the accounting methods prior to the formulation of GNASBSs and the launching of the GSE. Even where companies changed form one accounting measurement method to another, it was learnt during interviews that the change had not been motivated by GSE listing or GNASBSs.

The corporate executives of the companies which switched methods, namely, UTC Estates of Ghana Limited, Super Paper Products Company Limited, Aluworks Limited and Accra Brewery Limited, explained that the desire to present accounts to reflect the circumstances of their companies and the environment in which they operated, rather than GSE listing and GNASBSs, were the driving forces behind the choice of the new accounting measurement methods. The opinion of three corporate executives was consistent with the revaluation of tangible fixed assets and capitalization of exchange differences which were motivated by the high inflation in Ghana and the massive devaluation of the cedi, Ghana's currency.

Two problems with the disclosure of accounting policies in Ghana were identified. There was a complete lack of disclosure of some accounting policies. In other cases, disclosure of accounting policies were not comprehensive enough. These cases could be attributable to the fact that the content of disclosure was judgmental. All the disclosed accounting measurement methods were consistent with the requirements in Ghana, namely, the Ghana Companies Code and GNASBSs, and IASC standards.

The consistency of accounting measurement practices in Ghana with IASC standards is not surprising. This is so because in a large measure IASC standards conformed to the requirements of the Ghana Companies Code and GNASBSs. Consequently, compliance with the requirements in Ghana amounted to compliance with IASC standards. The major area of concern to which the IASC and the GNASB have to direct their attention is the lack of disclosure of policies pertaining to some accounting measurement items.

The observation by Saudagaran and Diga [1997] that there is diversity of accounting measurement practices in ECMs does not appear to be the case in Ghana as evident by uniformity of practice on many of the measurement items investigated. The conformity of the accounting measurement practices of the companies studied in Ghana to IASC standards is also indicative of the existence of international accounting harmonisation which is required for the operation of international capital markets. The observed trend, so far as the accounting measurement items investigated in this study are concerned, makes the GSE well positioned to be integrated into the global capital market.

10.5 CONCLUSION

This chapter has examined accounting measurement regulations and practices pertaining to fifteen items in Ghana. The impact of accounting regulation and the development of the capital market on comparability of accounting measurement methods in Ghana was analysed. Given that financial reporting encompasses measurement and disclosure dimensions, this chapter has so far provided only a partial insight into the subject in Ghana. A comprehensive view of financial reporting in Ghana warrants consideration of disclosure which is tackled in the ensuing chapters.

CHAPTER XI

A SURVEY OF DISCLOSURE REGULATIONS AND PRACTICES IN GHANA

11.1 INTRODUCTION

In the previous chapter, accounting measurement methods used in Ghana were considered. This chapter and the next two focus on disclosure issues. As a key objective, this chapter will throw light on disclosure regulations and the style of presentation of annual reports in Ghana. This has been found necessary given that the description of existing regulations and current practices serves as a significant first step in the process of documenting financial reporting practices of individual countries. This is particularly relevant to Ghana, and indeed many developing countries, where little is documented and known about the state of financial reporting. The rest of the chapter reporting the findings is organised as follows: Disclosure regulations and formats of annual reports of the companies surveyed in Ghana are reported in section 11.2. Section 11.3 is devoted to a summary and discussion of the findings. Concluding remarks are presented in section 11.4.

11.2 COMPONENTS OF ANNUAL REPORTS IN GHANA

11.2.1 COMPANY BACKGROUND INFORMATION

Disclosure of company background information is not required under the Ghana Companies Code nor GNASBSs. The Stock Exchange (Ghana Stock Exchange) Listing Regulations, 1990, L.I. 1509, however, requires disclosure of company background information. Items which are required to be disclosed are: particulars of the company secretary, address of registered office or principal place of business and address of each office where a register of securities is kept.

Companies voluntarily disclosed addresses and telephone numbers of offices, registrars and particulars of secretary even before these items became mandatory. Other disclosures made voluntarily were particulars of solicitors, auditors and bankers and names of the directors of the companies. Disclosures were made under titles such as 'board of directors, officials and registered office', 'corporate information', and 'board of directors and advisers'.

11.2.2 CHAIRMAN'S STATEMENT AND MANAGING DIRECTOR'S REPORT

The disclosure of a chairman's statement and a chief executive's report was not required in Ghana from 1988-1997. Some companies voluntarily included such a chairman's statement and a managing director's report in the annual report. In 1988, only one (6.7%) company disclosed a chairman's statement increasing consistently year on year to 11 (73.3%) in 1997. The disclosure of a managing director's report was not a popular practice, as it was found in only one instance in 1996. This was disclosed by Pioneer Tobacco Company Limited and was notable for having been done on the assumption to office of a new managing director.

The content of the chairman's statement varied among companies and over time. Generally, however, disclosures included a review of the impact of domestic and international political and economic developments on current and future results, analysis of operational and business results, human resource and industrial relations, state of the company's information technology, community-assisted projects and programmes, current and future capital expenditure programmes, forecasts of revenues and incomes (mainly qualitative), environmental protection projects, changes in directors, dividend information, financing requirements, share price performance and future outlook.

11.2.3 DIRECTORS' REPORT

Under Sections 124 and 132 of the Ghana Companies Code, Act 179, a directors' report must be approved by the Board of Directors and signed on its behalf by two directors. Disclosures required in a directors' report are discussion of the state of affairs of the company or the group, material changes in the nature of business of the company, subsidiaries, associated companies or related company, amount, if any, recommended to be paid as dividend by the Board of Directors, nature of business of associated companies and name and country of origin of the parent company if the reporting company is a subsidiary of a foreign company.

All companies disclosed a directors' report from 1988-1997. The disclosures in the directors' reports mainly dealt with the regulatory requirements. It was observed to be typical for directors to explain state of affairs of a company in one sentence as follows: "The Directors consider the state of affairs of the company satisfactory" [Pioneer Aluminium Factory Limited, Annual Report and Accounts, 1997: 6]. Such a disclosure detracted from giving insights into the basis underlying the judgement of directors on the financial position of the company.

11.2.4 NOTICE OF MEETING

It is required under the Ghana Companies Code that the notice of Annual General Meeting, signed and dated by the company secretary, should be sent to all shareholders and debentureholders at least thirty days before the meeting is held. Such notices are to specify the date, time and place of and agenda for the meeting. Resolutions which are to be passed at the meeting are to be circulated together with the notice.

The inclusion of the 'notice of meeting' in the annual report was not a requirement. Nevertheless, all companies disclosed the notice announcing the Annual General Meeting in the annual report in all the years studied.

11.2.5 AUDITORS' REPORT

Under Sections 124 and 133 of the Ghana Companies Code, duly qualified and appointed auditors are to issue a report on the books of account, balance sheet, profit and loss account and group accounts, of a company. The auditors' report is required to be sent to shareholders and debentureholders by the directors of the company. Auditors are required to state the following matters in auditors' report:

> "1. Whether, they have obtained all the information and explanations which to the best of their knowledge and belief were necessary for the purposes of the audit.
>
> 2. Whether, in their opinion, proper books of account have been kept by the company, so far as appears from their examination of those books, and proper returns adequate for the purposes of their audit have been received from branches not visited by them.
>
> 3. Whether the company's balance sheet and (unless it is framed as a consolidated profit or loss account) profit and loss account dealt with by the report are in agreement with the books of account and returns.
>
> 4. Whether, in their opinion and to the best of their information and according to the explanations given them, the said accounts give all the information required by [the] Code and in the manner so required and give a true and fair view-
>
> > (a) in the case of the balance sheet, of the state of the Company's affairs at the end of the year, and

(b) in the case of the profit and loss account, of the profit or loss for the financial year, or, as the case may be, give a true and fair view thereof subject to the non-disclosure of any matters [which are not required to be disclosed under the Code].

5. In the case of a holding company submitting group accounts, whether, in their opinion, the group accounts have been properly prepared in accordance with the provisions of [the] Code so as to give a true and fair view of the state of affairs and profit or loss of the company and its subsidiaries dealt with thereby so far as concerns the interests of the company or, as the case may be, so as to give a true and fair view thereof subject to the non-disclosure of any matters [which are not required to be disclosed under the Code]".

All companies complied with the requirement of the Code by including auditors' report on the accounts in their annual reports from 1988-1997. Matters stated in the auditors' report were in line with the requirements of the Code. Although not required under the Companies Code, auditors expressed and included an opinion on sources and application of funds or cash flow statement in their reports. From 1993, auditors' reports on the accounts of some companies included statements on the respective responsibilities of directors and auditors in the preparation and presentation of financial statements as well as the basis of the auditors' opinion. The auditors' report indicated also that international auditing standards had been followed in the conduct of the audit. The auditors who were interviewed (see Appendix 1) indicated that the international auditing standards referred to in the audit reports were those issued by the IFAC.

Exhibit 11.1 and Exhibit 11.2 are examples of auditors' report issued to members of Unilever Ghana Limited in 1996 and 1997 respectively which reveal differences in content during the two years.

EXHIBIT 11.1: AUDIT REPORT ON 1996 FINANCIAL STATEMENTS OF UNILEVER GHANA LIMITED

Unilever

Unilever Ghana Limited

REPORT OF THE AUDITORS TO THE MEMBERS OF UNILEVER GHANA LIMITED

We have audited the financial statements on pages 12 to 25 in accordance with Auditing Standards. The Financial Statements are in agreement with the books which, in our opinion, have been properly kept. We obtained the information and explanations we required.

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and the group at 31 December, 1995 and of the cash flows of the group for the year then ended and have been properly prepared in accordance with the Companies Code, 1963.

Coopers & Lybrand

CHARTERED ACCOUNTANTS

ACCRA

EXHIBIT 11.2: AUDIT REPORT ISSUED ON 1997 FINANCIAL STATEMENTS OF UNILEVER GHANA LIMITED

REPORT OF THE AUDITORS

TO THE MEMBERS OF UNILEVER GHANA LIMITED

We have audited the financial statements on pages 10 to 21 which have been prepared under the historical cost convention

Respective responsibilities of directors and auditors

The Company's Directors are responsible for the preparation of the financial statements It is our responsibility to form an independent opinion, based on our audit, of those statements and to report our opinion to you

Basis of opinion

We conducted our audit in accordance with Auditing Standards An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence whether the financial statements are in agreement with proper books of account kept by the company and to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Group at 31 December 1997 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Code, 1963

ACCRA
21 st May, 1998

CHARTERED ACCOUNTANTS

11.2.6 STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors of a company in Ghana have a responsibility regarding the keeping of books of account and the preparation of financial statements. Directors are required to ensure that proper books of account are kept, appropriate accounting policies have been applied and that the financial statements give a true and fair view of the state of affairs of the company at the end of the financial year and of the profit and loss for the period. There is no requirement, however, that there is a disclosure of this responsibility in annual report. Accra Brewery Limited, however, disclosed a 'statement of directors' responsibilities' which indicated the relative roles of auditors and directors in the preparation of financial statements. Exhibit 11.3 is an example of a 'statement of directors' responsibilities' in Ghana.

EXHIBIT 11.3: STATEMENT OF DIRECTORS' RESPONSIBILITIES DISCLOSED BY ACCRA BREWERY LIMITED IN 1996

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Ghana Companies Code, 1963 (Act 179) requires Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss for that period.

The Directors consider that in preparing the financial statements they have used appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates and that all International Accounting Standards which they consider to be appropriate have been followed.

The Directors are responsible for ensuring that the company keeps accounting records which disclose with reasonable accuracy the financial position of the company and which enable them to ensure that the financial statements comply with the Companies Code, 1963 (Act 179).

They are also responsible for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The above statement which should be read in conjunction with the statement of the auditors' responsibilities set out on page 10 is made with a view to distinguishing for shareholders the respective responsibilities of the directors and the auditors in relation to the financial statements.

11.2.7 MISCELLANEOUS AND PICTORIAL DISCLOSURES

Events covering staff activities, social activities, customers and products and major events taking place in the company were disclosed in some annual reports pictorially. These disclosures included advertising materials confirming the view that annual report also serves as a public relations tool. Community activities such as sports sponsorship, support for education, donation of health facilities, afforestation and cultural programmes sponsored by companies were pictorially presented. Products were displayed colourfully and used in the presentation of pie charts and graphs by some companies. Key events such as installation and commissioning of new plant and machinery and buildings were also disclosed pictorially in addition to any comments made in the chairman's statement or directors' report. Other disclosures made, albeit inconsistently by a few companies, were corporate purpose or objectives and mission and vision statements as in Exhibit 11.4.

EXHIBIT 11.4: VISION AND MISSION STATEMENT
DISCLOSED BY MOBIL OIL GHANA LIMITED IN 1994

Mobil Oil Ghana Limited

Vision, Mission and Values

VMV
Vision, Mission and Values

Our Vision:
To be a GREAT, global company. A company built with pride by all our people, that sets the standard for excellence. A company that brings value to our customers, provides superior returns to our shareholders and respects the quality of life in every one of our communities.

Our Mission:
To be a dynamic company that will continually find and develop opportunities for profitable growth in our core businesses, and that will realize the greatest value from our existing assets while keeping tight control of our costs.

We Value:
People To value, trust and empower all of our people to be mutually accountable for Mobil's success; to provide opportunities in a changing environment without boundaries, where each person can develop to be the best that he or she can be. **Customers** To understand and satisfy our customers' needs better than anyone and to offer products and services that provide them with the best value. **Shareholders** To reward our shareholders by providing a superior long-term total return, which exceeds that of our peers. **Ethics** To conduct our business to the highest ethical standards and in compliance with all applicable laws and regulations. **Technology** To develop or acquire and then rapidly apply appropriate technology to obtain and sustain competitive advantage. **Environment, Health & Safety** To protect the environment and the health and safety of our people and the communities in which we work.

11.2.8 VALUE ADDED REPORT

Disclosure of a value added statement was not a requirement in Ghana from 1988-1997. However, some companies voluntarily disclosed value added information. The number of companies which disclosed a value added statement increased from three (20%) in 1988 to six (40%) in 1997. Four of the companies which disclosed value added information were subsidiaries of UK MNCs, one was a subsidiary of a Netherlands MNC, and one was a Ghanaian owned-company. All the companies which disclosed value added information were engaged in manufacturing. The disclosures of value added information were quantitative only comprising value added amounts, value added ratios or percentages and value added bar graphs or pie-charts. Comparative value added data for the current year and the immediately preceding year and the period of value added report were disclosed. One Ghanaian-owned company, Aluworks Limited, disclosed a five-year summary of value added data. While no company disclosed qualitative comments on value added results, some companies emphasised the share of the Ghana Government, mainly taxes, in the chairman's statement. It was noted that value added was distributed among employees, government, creditors and shareholders (including reinvestment). Exhibit 11.5 is an example of a value added report in Ghana.

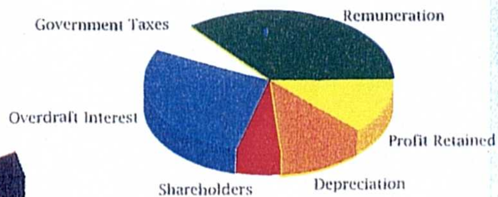
EXHIBIT 11.5: VALUE ADDED REPORT
DISCLOSED BY KUMASI BREWERY LIMITED IN 1997

Value Added Statement

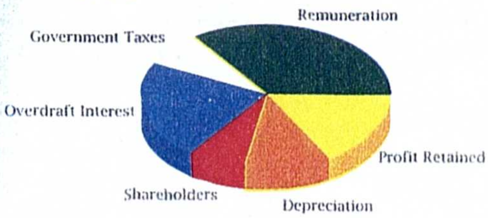
19

FOR THE YEAR ENDED 31ST DECEMBER	1997	%	1996	%
	¢'M		¢'M	
Turnover	27,327		20,715	
Other Income	39		56	
	27,366		20,771	
Less: Bought-in-materials and services	18,025		13,959	
VALUE ADDED	9,341	100	6,812	100
Applied as follows:				
1. **Employees Remuneration**	3,344	36	2,362	35
2. **Income Tax to Government**	637	7	598	9
3. **Providers of Capital:**				
(a) Overdraft Interest	2,633	28	1,465	21
(b) Shareholders	510	5	492	7
4. **Reinvested in the Business:**				
Depreciation	1,028	11	747	11
Profit Retained	1,189	13	1,148	17
	9,341	100	6,812	100

1997



1996



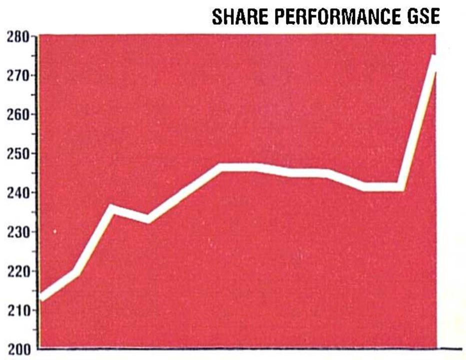
11.2.9 FINANCIAL HIGHLIGHTS STATEMENT

Disclosure of financial highlights was not required in Ghana from 1988-1997. Some companies, however, voluntarily disclosed financial highlights in the period. From 2 (13.3%) in 1988, companies which disclosed financial highlights statement increased to 6 (40.0%) in 1997. A financial highlights statement, was in all cases, placed before the main financial statements. Items of information disclosed in financial highlights statements varied among companies and over time. These items comprised turnover, gross earnings, net earnings before tax, net earnings after tax, taxation, dividend amount, dividend per share, total liabilities, total assets, net asset per share, earnings per share, net profit margin and return on shareholders funds. All companies presented data in tabular form for the current and the immediately preceding year. Changes in amounts and/or percentages between the two years were disclosed. Graphical presentation of some financial highlights data was found. Exhibit 11.6 is an example of a financial highlights statement in Ghana.

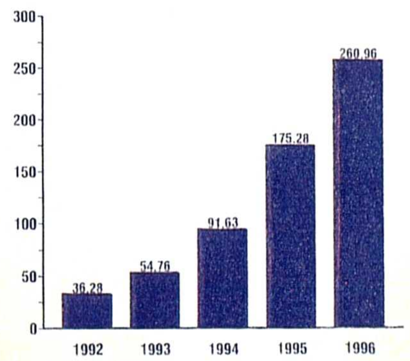
EXHIBIT 11.6: FINANCIAL HIGHLIGHTS STATEMENT DISCLOSED BY GUINNESS GHANA LIMITED IN 1996

The Year In Summary

	1996	1995	CHANGE %
TURNOVER	**75,968,334**	47,765,018	59.05%
PROFIT BEFORE TAX	**13,806,031**	10,387,521	32.91%
TAXATION	**(1,912,372)**	(2,259,867)	-15.38%
PROFIT AFTER TAXATION	**11,893,659**	8,127,654	46 34%
DIVIDENDS	**(2,643,300)**	(1,409,760)	87 50%
RETAINED PROFIT	**9,250,359**	6,717,894	37.70%
CAPITAL EXPENDITURE	**16,480,363**	4,572,642	260.41%
DEPRECIATION	**805,067**	692,753	16.21%
SHAREHOLDERS' FUNDS	**30,657,720**	16,473,201	86.11%
DIVIDENDS PER SHARE	**22.50**	15 00	50.00%
NET ASSETS PER SHARE	**260.96**	175.28	48 88%



JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
213	219	235	233	240	245	245	243	243	242	242	275



11.2.10 PROFIT AND LOSS ACCOUNT

While the GSE regulation did not add to profit and loss requirements of the Ghana Companies Code, the requirements of GNASBSs did. Disclosures required under the three sources of regulation are: turnover, expenses, other income, taxes, estimated and contingent revenues and expenses, effect of accounting changes on income, finance charges, exceptional and non-recurring items, prior year adjustments, corresponding figures for the previous year, current period for which accounts have been prepared and net profit for the period. Additional disclosures required under GNASBSs are research and development costs, inflation-adjusted profit or loss, segment revenue and income, retirement benefit costs, government grants and exchange gains and losses.

In line with requirements in Ghana, all the companies surveyed presented profit and loss accounts in all the ten years studied. The profit and loss accounts were in condensed formats with analysis of the composition of items, particularly, turnover, general, selling and administration expenses, other income and taxes provided in the 'notes to the accounts'. The bases for stating revenue and expense items were defined in the statement of accounting policies. The profit and loss accounts were, in all cases, prepared on the basis of the historical cost convention. Exhibit 11.7 is an example of a typical profit and loss account in Ghana.

EXHIBIT 11.7: PROFIT AND LOSS ACCOUNT OF PIONEER ALUMINIUM FACTORY LIMITED FOR 1997

PIONEER ALUMINIUM FACTORY LIMITED
TRADING AND PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31ST DECEMBER, 1997

	Note	1997 ¢'000	1996 ¢'000
GROSS SALES		9,874,736	7,716,451
Less Sales Tax		1,279,075	1,004,738
		8,595,661	6,771,713
Cost of Sales		6,793,012	5,299,005
GROSS PROFIT		1,802,649	1,412,708
General, Administrative and Selling Expenses		862,620	517,797
		940,029	894,911
Other Income	3	177,396	153,204
PROFIT BEFORE TAXATION	4	1,117,425	1,048,115
Taxation	5	343,216	380,000
PROFIT AFTER TAXATION transferred to Income Surplus Account		774,209	668,115

11.2.11 INCOME SURPLUS ACCOUNT

Under Section 70 of the Ghana Companies Code, companies are required to disclose an income surplus account. The income surplus account is a link between the profit and loss account and the balance sheet. The profit or loss recorded in a year is transferred to the income surplus account. In addition to dividend, transfers to reserves, capitalisation issue of shares and prior-year adjustments are permitted to be appropriated from the income surplus account. Any balance on the income surplus account at the end of the year is shown in the balance sheet as part of shareholders' funds. All companies complied with the Code from 1988-1997 by disclosing an income surplus account which revealed, where relevant, appropriations made for capitalisation issues and dividends and prior-year adjustments. Exhibit 11.8 is an example of a typical income surplus account in Ghana.

EXHIBIT 11.8: INCOME SURPLUS ACCOUNT
DISCLOSED BY PIONEER ALUMINIUM COMPANY LIMITED IN 1997

INCOME SURPLUS ACCOUNT
FOR THE YEAR ENDED 31ST DECEMBER, 1997

	Note		1997 ¢'000		1996 ¢'000
Balance at 1st January			837,323		495,791
Profit for the year			774,209		668,115
			1,611,532		1,163,906
Dividend: Interim		-		97,717	
Final		494,122		228,866	
			494,122		326,583
Balance at 31st December			1,117,410		837,323
Earnings per Share (cedis per share)	17		¢47.00		¢40.87
Dividend per Share (cedis per share)	17		¢30.00		¢20.00

EXHIBIT 11.9: BALANCE SHEET OF
PIONEER TOBACCO COMPANY LIMITED IN 1994

PIONEER TOBACCO COMPANY LIMITED

BALANCE SHEET AS AT 31ST DECEMBER 1994

	Note	1994	1993
		¢ 000	¢'000
FUNDS EMPLOYED			
Stated Capital	12	3 000 000	3 000 000
Income Surplus		4 915 684	3 645 568
SHAREHOLDERS' EQUITY		7 915 684	6 645 568
EMPLOYMENT OF FUNDS			
Fixed Assets	5	4 770 231	4 945 596
Investments	7	326	326
		4 770 557	4 945 922
CURRENT ASSETS			
Stocks	8	6 857 964	5 543 336
Debtors	9	3 273.059	2 127 925
Taxation - Current	6	132.165	195 197
Cash and Bank balances		1 260.680	712 104
		11 523.868	8 578 562
CURRENT LIABILITIES:			
Bank Loans and Overdrafts	10	3.262.675	1 914 180
Creditors	11	2.526.770	2 774 709
Associated Company Balances		922.993	883 724
Taxation - Deferred	14	218.128	187 196
Interim Dividend		240.000	150 000
Proposed Final Dividend		570.000	300 000
		7 740.566	6 209 809
NET CURRENT ASSETS		3 783 302	2 368 753
LONG TERM LIABILITIES			
Long Term Loans BATCO	15	(638.175)	(638 175)
Deferred Taxation	14	-	(30 932)
		(638.175)	(669 107)
NET ASSETS		7 915 684	6 645 568
NET ASSETS PER SHARE	13	131 93	110 76

J K Richardson
M McNally } DIRECTORS

11.2.12 BALANCE SHEET

As with the profit and loss account, the Ghana Companies Code, GSE listing regulations and GNASBSs require the presentation of a balance sheet by companies to give a view of their state of affairs. Disclosure requirements cover fixed assets, current assets, long-term liabilities, current liabilities, post balance sheet events, capital commitments, contingencies, inflation adjusted data, surpluses and capital, indicating amounts of different categories or classes and totals, where necessary. In compliance with the regulations, all companies disclosed a balance sheet from 1988-1997. Exhibit 11.9 is a typical balance sheet in Ghana.

11.2.13 SOURCES AND APPLICATION OF FUNDS OR CASH FLOW STATEMENT

The Ghana Companies Code does not require disclosure of a sources and application or cash flow statement. The Stock Exchange (Ghana Stock Exchange) Listing Regulations, 1990, L.I. 1509, however, introduced a requirement to disclose a statement of sources and application of funds from 1991. The GSE listing regulation is silent on content and format of a statement of sources and application of funds. GNASBS 4, introduced in 1994, requires disclosure of a cash flow statement. The requirements of GNASB which indicate the format and content of a cash flow statement are similar to the requirement of IAS 7 issued by the IASC.

Before becoming mandatory in 1991, a majority of 13 (86.67%) companies voluntarily disclosed a sources and application of funds statement while a minority of two (13.33%) companies did not. On listing on the GSE, the two previously non-disclosing companies, then disclosed a statement of sources and application of funds and cash flow statement. The content and

EXHIBIT 11.10: SOURCES AND APPLICATION OF FUNDS
STATEMENT DISCLOSED BY MOBIL OIL GHANA LIMITED IN 1989

Mobil Oil Ghana Limited

STATEMENT OF SOURCE AND APPLICATION OF FUNDS
FOR THE YEAR ENDED DECEMBER 31, 1989.

SOURCE OF FUNDS		1989 ¢'000		1988 ¢'000
Profit before taxation		171,094		200,293
Adjustment for items not involving the movement of funds:				
Depreciation	92,376		56,447	
(Profit) on sale of fixed assets	(33,268)		(5,422)	
Provision for Employees' end of service benefits	59,013		60,492	
		118,121		111,517
TOTAL FUNDS GENERATED FROM OPERATIONS		289,215		311,810
FUNDS FROM OTHER SOURCES				
Proceeds from sale of fixed assets	46,190		8,405	
Proceeds from sale of treasury bills	–		900	
		46,190		9,305
		335,405		321,115
APPLICATION OF FUNDS				
Tax paid	119,424		99,316	
Purchase of fixed assets	640,996		461,446	
Dividend paid	22,500		13,500	
Payment of End of service benefit	41,762		7,997	
		824,682		582,259
		¢ (489,277)		¢ (261,144)
INCREASE/(DECREASE) IN WORKING CAPITAL				
Stocks		90,983		70,965
Amount due from associated companies		325,347		233,831
Debtors		(56,759)		215,373
Amount due to associated companies		(799,936)		(311,797)
Creditors		(249,587)		(434,926)
MOVEMENT IN NET LIQUID FUNDS:				
Cash and bank		200,675		(34,590)
		¢ (489,277)		¢ (261,144)

EXHIBIT 11.11: CASH FLOW STATEMENT DISCLOSED BY MOBIL OIL GHANA LIMITED IN 1994

Mobil Oil Ghana Limited

Cash Flow Statement For the Year Ended December 31, 1994

(All amounts in ¢'000)

		1994		1993
Operating Profit (before Investment Returns and Servicing of Finance)		3,715,185		2,554,927
Add/ (Less):				
Depreciation	544,784		318,742	
(Profit)/Loss on disposal of fixed asset	(20,648)		24,350	
(Increase) in Stocks	(1,148,419)		(3,532,788)	
(Increase) in Debtors	(2,372,035)		(1,658,936)	
Increase in Creditors	3,153,929		2,389,254	
Increase in Associated companies balances	1,361,127		2,829,307	
Capital surplus released on disposal	(1,350)		-	
		1,517,388		369,929
Net cash inflow from operations		5,232,573		2,924,856
Return on investment and servicing of finance				
Interest received	93,215		20,877	
Interest paid	(1,271,529)		(554,971)	
Dividend paid	(1,012,500)		(1,212,479)	
		(2,190,814)		(1,746,573)
Taxation				
Tax paid		(1,616,248)		(1,223,164)
Investment Activities				
Purchase of fixed assets	(2,092,507)		(2,063,663)	
Sale of fixed assets	20,648		9,470	
Investment in subsidiary	(500)		-	
		(2,072,359)		(2,054,193)
Financing:				
Issue of shares		-		170,432
Decrease in cash and bank balance		(646,848)		(1,928,642)
Opening Cash and Bank balance		(1,916,848)		11,794
Closing Cash and Bank balance		(2,563,696)		(1,916,848)
Cash at bank and on hand		1,566,849		723,007
Bank Overdraft		(4,130,545)		(2,639,855)
		(2,563,696)		(1,916,848)

format of the statement of sources and application of funds and cash flow statement shown in Exhibit 11.10 and Exhibit 11.11 respectively mirrored Financial Reporting Standards (FRS) of the UK, IASC standards and GNASB standards. The companies changed from the presentation of a sources and application of funds statement to a cash flow statement over the period studied in different years in response to new international accounting standards. The sources and application of funds statement and cash flow information statement disclosed by all the companies followed the formats in Exhibit 11.10 and Exhibit 11.11 respectively. One company, Mobil Oil Ghana Limited, however disclosed the two statements in a graphical format
as well.

11.2.14 ACCOUNTING POLICIES

The Ghana Companies Code does not specifically mention the disclosure of accounting policies. It requires, however, that the bases used to value inventories, fixed assets and investments, methods of depreciation of fixed assets and methods used to translate foreign currencies are disclosed. The requirements of the GSE do not also specify disclosure of accounting policies. GNASBS 1, however, requires that financial statements should include clear and concise disclosure of all significant accounting policies which have been used. It needs to be emphasised that determination of

EXHIBIT 11.12: ACCOUNTING POLICIES
DISCLOSED BY KUMASI BREWERY LIMITED IN 1997

Accounting Policies

FOR THE YEAR ENDED 31ST DECEMBER 1997

ACCOUNTING CONVENTION
These Financial Statements have been prepared under the historical cost convention as modified by the revaluation of Leasehold Land and Buildings and Plant and Machinery.

ACCOUNTING POLICIES
The significant accounting policies adopted by the Company and used in arriving at the financial information set out in these accounts are as follows:

Turnover
Sales represent the value of goods invoiced to customers in the year net of all returns, trade discount and taxes collected for the Government.

Fixed Assets Depreciation
Depreciation is calculated on the following bases which are expected to write off the gross value of each fixed asset over its estimated useful life:

		%
Land and Buildings	- Leasehold Land and Buildings	2.50
Plant and Machinery	Bottling	6.67
	Brewing	3.33
	Utilities	6.67
	Workshop	10.00
Motor Vehicles	- Forklift/Trucks	20.00
	Road Vehicles	33.33
Furniture & Equipment		20.00

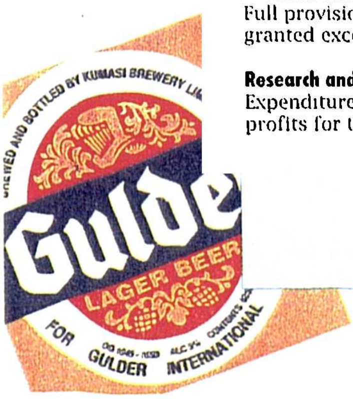
Stocks
Stocks are valued on a first in first out basis at the lower of cost and net realizable value. Cost includes all direct expenses incurred in bringing the stocks to their current state under normal operating conditions.

Debtors
Provisions are made for specific debts considered to be doubtful.

Foreign Currencies
Transactions denominated in foreign currencies are translated into cedis at the rates of exchange ruling at the dates of the transactions. Balances in foreign currencies are translated into cedis at the rates of exchange ruling at the balance sheet date.

Deferred Taxation
Full provision is made for deferred tax by the extent to which capital allowances granted exceed depreciation charge at the standard income tax rate.

Research and Development
Expenditure on research and the development of new products is charged against profits for the year in which it is incurred.



what is significant is judgmental thereby giving preparers of financial statements in Ghana flexibility in making accounting policy choices.

All the companies surveyed provided a statement of accounting policies in their annual reports in all the years studied. Presentation style and content of accounting policies varied among companies. Whereas some companies presented accounting policies as a separate statement, others included them as part of the 'notes to the accounts'. Among the accounting policies which were disclosed were: sales, valuation of and methods for assigning cost to inventories, valuation and depreciation of tangible fixed assets, translation and treatment of exchange differences for transactions and balances denominated in foreign currency, investments, taxation, contingencies, change in accounting year, prior-year adjustments, research and development costs, debtors, deferred taxation and basis of consolidation. The diversity in accounting policy disclosure could be attributed to differences in the circumstances of companies. Exhibit 11.12 is an example of a statement of accounting policies in Ghana.

11.2.15 NOTES TO THE ACCOUNTS

The Fourth Schedule of the Code and GNASBS 2 requires disclosure of 'notes to the accounts'. The 'notes to the accounts' provide details of and an explanation for aggregated figures in the profit and loss account, balance sheet and cash flow to enhance comprehension. The content and scope of disclosure in the 'notes to the accounts' depend on the degree of aggregation and explanation required of figures as well as further disclosures needed to make the financial statements easy to understand. It was, therefore, not surprising to have observed variation in the contents of 'notes to the accounts' of companies all of which made such disclosure in every year covered in the study.

11.2.16 SUMMARY OF TREND DATA

Disclosure of a summary of data for a number of years was not a requirement in Ghana from 1988-1997. Some companies voluntarily disclosed financial summaries. The number of companies which disclosed financial summaries increased from 4 (26.7%) in 1988 to 9 (60.0%) in 1997. Disclosures of summary data varied among companies in terms of the number of years covered and content. Summaries for three, five and ten years were disclosed with the most typical being the five-year summaries. Items of information disclosed were mainly financial in nature and included total sales, total expenses, taxes, operating profit, assets, liabilities, financial ratios and share capital and value added. A few companies provided non-financial data such as number of employees, production volume and sales volume. Data were mainly provided in tabular form although some companies provided graphical presentation of some items.

11.3 SUMMARY OF RESULTS AND DISCUSSION

As in other former British colonies such as India, Zimbabwe and Nigeria, the British colonial legacy influenced corporate reporting in Ghana via the Ghana Companies Code 1963, Act 179, which was modelled on the UK Companies Act at the time. The introduction of the GSE listing regulations and GNASBS in 1991 and 1995 increased the level of financial regulation in Ghana by adding to the requirements of the Ghana Companies Code which had been the only source of financial reporting regulation up to that time.

Some aspects of the Ghana Companies Code dealing with disclosure in the directors' reports are ambiguous and permissive which need review. The clause which requires the disclosure of the state of affairs of the company does not indicate the scope and depth of analysis required. This has given directors enormous discretion regarding the scope of disclosure. It would be helpful if the law is amended to require directors to provide analysis to link their judgement on whether or not the state of affairs of the company is satisfactory. Such an amendment should give some guidance to directors on the type of analysis which must be presented in respect of liquidity, leverage, operations, state of physical facilities, contingencies, among others.

In addition to the conventional financial statements, namely, profit and loss account, balance sheet, cash flow, accounting policies and notes to the accounts, directors' report and auditors' report which were required, statements such as value added, chairman's statement, notice of meeting, company background information, financial highlights, statement of directors responsibilities and summary of data were voluntarily disclosed in Ghana. Variations in these statements as well as similarities among companies and over time were found.

11.4 CONCLUSION

This chapter has presented an overview of the sources and scope of disclosure regulation pertaining to annual reports in Ghana. The reports and formats of annual reports of the companies studied in Ghana have been outlined. The next chapter will examine the extent of disclosure of information in annual reports in Ghana while analysis of some of the factors which have shaped disclosure in Ghana will be considered in chapter XIII and chapter XIV.

CHAPTER XII

EXTENT OF CORPORATE DISCLOSURE IN ANNUAL REPORTS IN GHANA

12.1 INTRODUCTION

The results of the survey of disclosure regulations and formats of annual reports reported in Chapter XI provided a general overview of financial reporting in Ghana. This chapter examines the quantity of disclosure in annual reports in Ghana. The extent of overall disclosure, mandatory disclosure and voluntary disclosure of information is reported in sections 12.2,12.3 and 12.4 respectively. The extent of disclosure of categories of information are presented in section 12.5. The results are summarised and discussed in section 12.6. Concluding remarks are provided in section 12.7.

12.2 OVERALL DISCLOSURE

The extent of disclosure of each of the 156 items of information investigated is reported in Appendix 12. Based on the average disclosure indexes for ten years, 1988-1997, 61 (39.1%) items were disclosed by all companies. Eighty-eight (56.4%) items were disclosed by a fraction of companies with scores ranging between 1.3% and a high of 97.3% for the ten years. Seven (4.5%) items were not disclosed by any of the companies studied. In aggregate, overall disclosure increased over the ten years as the average overall disclosure indexes reported in Appendix 13 reveal. From 63.7% in 1988, overall disclosure increased to 73.3% in 1997 with an average of 67.5% for the ten years. Mobil Oil Ghana Limited attained the highest overall disclosure while Super Paper Products Company Limited recorded the lowest.

12.3 MANDATORY DISCLOSURE

Based on the average mandatory disclosure for the ten years, 1988-1997, reported in Appendix 12, seventy (69.1%) mandatory items were disclosed by all companies, 41 (36.5%) items by a fraction of companies with scores ranging between 3.1% and 97.3%, while 2 (1.8%) items were not disclosed by any of the companies studied. Thus, there was a lack of compliance with mandatory disclosure requirements in Ghana. The items of information with low compliance rates were mainly those required under the listing regulations of the GSE. Indeed, ten of the lowest eighteen disclosure items were required by the GSE.

The average mandatory disclosure indexes of the companies studied declined over the ten years as can be seen from Appendix 14. From 92.2% in 1988, compliance with mandatory requirements reached its highest of

93.5% in 1990 and declined thereafter to 87.9% in 1997 with an average of 89.2% for the ten years. Based on the ten year average, the highest mandatory disclosure index, signifying the highest compliance with accounting requirements, was achieved by Pioneer Aluminium Factory Limited. Mechanical Lloyd Company Limited recorded the lowest compliance with mandatory requirements.

12.4 VOLUNTARY DISCLOSURE

Based on the average disclosure indexes for the ten years reported in Appendix 12, only 2 (4.7%) items were disclosed by all companies, five (11.6%) items were not disclosed by any company, while 36 (87.7%) items were disclosed by a fraction of the companies studied with scores ranging between 1.3% and 56.0%. Although voluntary disclosures were low, they increased over the ten years as Appendix 15 reveals. From 15.7% in 1988, the voluntary disclosure index increased to 30.4% in 1997 with an average of 22.2% for the ten years for all the companies studied. The leader in the disclosure of voluntary information was Guinness Ghana Limited whilst CFAO Ghana Limited made the poorest disclosing company during the period studied.

12.5 DISCLOSURE OF CATEGORIES OF INFORMATION IN ANNUAL REPORTS IN GHANA

12.5.1 COMPANY BACKGROUND INFORMATION

The extent of disclosure of company background information is reported in Appendix 16 (Panel A) which reveals an increase from 1988-1997. From 74.5% in 1988, disclosure increased to a high of 79.0% in 1995 before declining to 78.9% in 1997. The least disclosed item among the company background information items was history of the company with a low index score of 2.6%. The disclosure indexes of individual companies for company background information are presented in Appendix 17. Based on the average for the ten years, the leader in the disclosure of company background information was Mobil Oil Ghana Limited with an index score of 89.0% with Fan Milk Limited as the poorest recording 60.0%.

12.5.2 NON-FINANCIAL AND SOCIAL INFORMATION

The disclosure of non-financial and social information items are listed in Appendix 16 (Appendix B). From 11.7% in 1988, disclosure of non-financial and social information increased to 22.8% in 1997 with an average of 23.6% for the ten years. Three non-financial and social information items, all relating to directors, were not disclosed by any company in any year. These were ages of directors, the professional qualifications of directors and the commercial experience of directors. Names of directors was the only item in the category of non-financial information which was disclosed by all companies in every year. With the exception of the information items related to directors mentioned above, disclosures of other non-financial and social information items increased during the ten years although they all experienced low scores averaging between 2.0% and 28.0% for the period. Disclosures of strategies and objectives, employee information, environmental information and contribution to community activities were low.

Disclosures of social information emphasised policies and actions of companies relating to contributions made to the community, environmental conservation and environmental protection programmes, employee training and welfare and industrial relations as revealed in the following extracts:

> "Guinness Ghana Limited's support to community health programme is being driven relentlessly. Another Guinness Eye Clinic was opened at La Polyclinic in Accra. Work on other clinics has progressed as planned and more will be opened soon. In education, financial support was given to a number of second cycle institutions in the Ashanti Region to enhance various educational facilities in their schools. Assistance was provided to St. Monica's Secondary School, IAESTE and AISEC, both of Kwame Nkrumah University of Science and Technology, and to Sankofa International... Guinness Ghana Limited made contributions to the development of sports, the arts and social entertainment." [Guinness Ghana Limited, Annual Report and Financial Statements 1996: 9-10]

> "Our policy aimed at enhancing employee skills and effectiveness was pursued through local and foreign courses and regular on the job training. Additionally, educational support activities via scholarship awards to employees' children continued. The calm and stable operating environment in the Brewery assisted immensely to achieve the

results reported." [Kumasi Brewery Limited, Annual Report, 1995: 6].

The extent of the disclosure of non-financial and social information by individual companies are presented in Appendix 18. Mobil Oil Ghana Limited was the leader in the disclosure of non-financial information with an average disclosure of 41.7% for the ten years. The lowest disclosing companies CFAO Ghana Limited, UTC Estates of Ghana Limited and Metalloplastica Ghana Limited with an index of 8.3% each for the period 1988-1997.

12.5.3 FINANCIAL REVIEW

The disclosure of financial review information in Ghana was voluntary. It was noted that financial review information was provided in the chairman's statement and the directors' report. From 14.6% in 1988, financial review information declined to 13.3% in 1989 but thereafter increased yearly to reach 34.6% in 1997 as can be seen in Appendix 16 (Panel C). The average disclosure of financial review information for the ten years was 23.5%. With the exception of three items, all financial review information items increased in disclosure from 1988-1997. Large increases in disclosure were observed in respect of analysis of current results, factors determining current results, qualitative comments on results, factors determining future performance and financial summary information from 1992-1997. Forecast information was scarcely disclosed by companies with an average for the ten years of 4.3%. The low forecast disclosure scores were indicative that the disclosure of forecast information was not popular among companies which is consistent with trends in other countries [Buzby, 1974; Firth, 1979a; Firer and Meth, 1986; Wallace, 1987; Meek and Gray, 1989].

The disclosure indexes of financial review information of individual companies are reported in Appendix 19. Based on the average for the ten years, the best financial review disclosure of 48.2% was recorded by Mobil Oil Ghana Limited. Three companies, namely, Paterson Zochonis Ghana Limited, CFAO Ghana Limited and Metalloplastica Ghana Limited, did not provide financial review information from 1988-1997.

12.5.4 VALUE ADDED INFORMATION

As reported in Appendix 16 (Panel D), the disclosure of value added information increased from 15.6% in 1988 to 32.2% in 1997 with an average of 22.0% for the ten years. With the exception of qualitative value added information which was not provided by any company, disclosure of the remaining value added information items increased. Based on the average disclosure index for the ten years reported in Appendix 20, Unilever Ghana Limited was the leader in the disclosure of value added information with a score of 83.33%.

12.5.5 ACCOUNTING POLICIES

The extent of disclosure of accounting policies is reported in Appendix 16 (Panel E). The results show that the disclosure of accounting policies increased over the ten years, 1988-1997. From 68.4% each in 1988, disclosure of accounting policies increased to 76.6% in 1997 with an average of 73.0% for the ten years. Five policies were disclosed by all the companies studied while the rest increased every year.

Based on the average index for the ten years, 1988-1997, reported in Appendix 21, Unilever Ghana Limited was the leader in the disclosure of accounting policies with a score of 85.7%. The company which disclosed the least accounting policies, recording a disclosure index of 52.8% for the ten years, was Mechanical Lloyd Company Limited.

12.5.6 CASH FLOW INFORMATION

The extent of disclosure of cash flow information by all the companies surveyed is reported in Appendix 16 (Panel F). As evident, the disclosure of cash flow information increased from 86.7% in 1988 to 100.0% in 1997 with an average of 94.0% for the ten years. With the exception of Metalloplastica Ghana Limited and Mechanical Lloyd Company Limited which did not disclose cash flow information until they were listed on the GSE, all companies made full disclosure of cash flow information in the ten years, 1988-1997 as reported in Appendix 22.

12.5.7 PROFITABILITY INFORMATION

The extent of disclosure of profitability information by all the companies studied is reported in Appendix 16 (Panel G). The disclosure of profitability information increased over the ten years. From the lowest level of 75.0% in 1988, disclosure of profitability information reached its highest of 81.4% in 1995 before declining to 80.4% in 1997. The average overall disclosure of profitability information was 78.4% for the ten years. Inflation adjusted profit or loss was not disclosed by any company.

The disclosure scores of individual companies for profitability information are reported in Appendix 23. On the basis of the average for the ten years, the leader in the disclosure of profitability information was Aluworks Limited with a score of 82.9%. Super Paper Products Limited disclosed the lowest level of profitability information with a score of 70.1%.

12.5.8 STATE OF AFFAIRS INFORMATION

The extent of disclosure of state of affairs information by all the companies surveyed is presented in Appendix 16 (Panel H). The disclosure of state of affairs information decreased from 80.9% in 1988 to 79.5% in 1997 with an average of 78.0% for the ten years. Inflation adjusted assets, capital and liabilities were not disclosed by any company. The absence of accounting for price-level changes was surprising, given the high inflation which characterised the Ghanaian economy over the period studied as indicated in Chapter II.

Based on the average for ten years reported in Appendix 24, the highest disclosure index of 85.4% was recorded by Aluworks Limited and the lowest of 67.5% by Super Paper Products Company Limited.

12.5.9 COMPARISON OF DISCLOSURES OF CATEGORIES OF INFORMATION

Based on the average disclosure indices for the ten years, Cash inflow information emerged as the highest disclosure category with an index of 94.0% followed, in a descending order, by profitability information (78.4%), state of affairs information (78.0%), company background information (76.5%), accounting policies (73.0%), financial review information (23.5%), value added information (22.0%) and non-financial and social information (17.6%). The categories of information which recorded high index scores of over 70% comprised a large number of information items which were mandatory. The categories of information which attained low index scores of under 25%, on the other hand, largely consisted of voluntary information items.

12.6 SUMMARY OF RESULTS AND DISCUSSION

Evidence of non-compliance with the requirements of the three sources of financial reporting regulation in Ghana, namely, the Ghana Companies Code, Stock Exchange (Ghana Stock Exchange) Listing Regulation, 1990, L.I. 1509 and Ghana Accounting Standards Board standards was found in Ghana. This finding is consistent with findings in India [Singhvi, 1967], Nigeria [Wallace, 1987, 1988a], Mexico [Chow and Wong-Boren, 1987], Singapore, and Taiwan [Tay, 1989], Malaysia [Tay, 1989; Hossain et al., 1995], Japan [Cooke, 1991], Kuwait [Al-Hajeri, 1992], Hong-Kong [Tai et al., 1994] and Bangladesh [Nicholls and Ahmed, 1995].

Non-compliance with accounting requirements suggests that the accounting regulatory bodies in Ghana, namely, the RGD, the GSE and the GNASB/ICAG, were ineffective in monitoring and enforcing regulations. It also raises questions about validity of audit opinions on the financial statements of the companies which were examined in this study which confirmed compliance with the Ghana Companies Code. The absence of stiff penalties for non-compliance and an underdeveloped financial press in Ghana could have contributed to non-compliance with accounting requirements.

Mr J. A. Saah, an Assistant Registrar of the Registrar General's Department (RGD), the monitoring and enforcement authority for the Ghana Companies Code, was interviewed on 29 July 1998 to ascertain the workings of the Department. It emerged from the interview that the RGD did not have a mechanism for monitoring compliance with the financial reporting requirements of the Ghana Companies Code. In the absence of such monitoring, the Department could not have identified culprits and proceeded to enforce compliance with reporting requirements.

Lack of expertise and logistical capacity were indicated as some of the factors which constrained the ability of the RGD to discharge its role. The RGD had not been able to recruit any qualified accountant for the task and also lacked computers to monitor submission of annual reports by companies. Lack of adequate funding from GOG was mentioned by the interviewee as a major constraining factor on the operational capacity of the RGD. Even if the RGD had financial resources, it might not have been able to recruit qualified accounting personnel given its civil service status and relatively low salaries compared to the commercial sector.

While the foregoing reasons are tenable, administrative failure on the part of the RGD cannot be ruled out as it had not really applied itself to the task, perhaps because it had not appreciated the significance of compliance with accounting requirements for investor protection and the development of the Ghana capital market. Obviously, the RGD has to be strengthened to enable it to perform its monitoring and enforcement roles. This requires that GOG adequately funds the RGD and steps are also taken to provide improved levels of remuneration in order to attract qualified personnel.

The GSE had a system of monitoring compliance but was weak on enforcement. It was confirmed by the Managing Director of the GSE, Mr. Y. Amoa, in an interview on 27 July 1998, that the GSE had brought instances of non-compliance with accounting regulations to the attention of companies but had not been applying sanctions. The Managing Director of the GSE felt that although accounting is essential, it should not be used to discourage companies from listing especially in the formative years of the Exchange. He observed:

> "At this stage of the development of the capital market, it is the Exchange which needs the listed companies and not the reverse. We should not impose too many sanctions to discourage companies from listing... A large majority of shareholders are indeed very small holders. The printing cost of an annual report is higher than the value of shares held by many shareholders. Companies are now in a learning phase so far as disclosure is concerned. We should therefore have a softer attitude if they default in complying with regulation... On very serious matters as happened in the case of Accra Brewery Limited, when it did not report on share deals, we insisted on the right thing being done..." [Y. Amoa, Managing Director, Ghana Stock Exchange, 27 July 1998].

The exercise of its power to delist companies for non-compliance with financial reporting regulation could be a more effective way by which GSE may ensure compliance. This is, however, unlikely to be done by the GSE for some time to come given the position of its managing director on disclosure outlined above. The GSE has to change its attitude by enforcing compliance more effectively at all times if investors are to be protected.

The ICAG had not provided any form of sanctions against non-compliance with GNASBSs by its members. Even if it did, as a private body, it is limited by lack of enforcement power which presumably accounted for the non-compliance with some GNASBSs. The ICAG did not also have a monitoring mechanism to ascertain the degree to which its standards were being complied with. To address this deficiency, the ICAG has proposed the establishment of a Financial Reporting Council which will monitor compliance with accounting regulations. The establishment of such a body will be a step in the right direction as it may be helpful in identifying areas of non-compliance with regulation.

Penalties for non-compliance with financial reporting requirements under the Ghana Companies Code 1963, Act 179 and Stock Exchange (Ghana Stock Exchange) Listing Regulation 1990, L.I. 1509, are minimal and unlikely to deter directors. It will be necessary to amend existing laws to introduce stiffer penalties to serve as disincentives for non-compliance. The mere introduction of penalties will, however, not ensure compliance if monitoring and enforcement are ineffective.

In countries where the financial press is developed, companies are constantly put under scrutiny through sophisticated analyses of their financial reports which could reveal existing deficiencies. This serves as a check and puts pressure on corporate directors to comply with disclosure requirements and also make voluntary disclosures. The financial press in Ghana during the period studied lacked competent financial journalists and reputable newspapers and journals. This could have contributed to non-compliance with disclosure requirements and the low voluntary disclosure levels.

Overall disclosure and voluntary disclosure increased over the ten years. The finding in Ghana was consistent with an increase in voluntary disclosure over time was observed in Saudi Arabia [Al-Modahki, 1995]. Trend increases in overall disclosure in Ghana was also similar to findings in USA, UK, Japan, France, West Germany, Sweden and the Netherlands [Barrett, 1976], South Africa [Firer and Meth, 1986] and Bangladesh [Nicholls and Ahmed, 1995].

Notwithstanding increased overall and voluntary disclosures in Ghana over the ten years, 1988-1997, there were low disclosures of certain items of information. Among the low disclosure items were strategies, forecasts, value added information, social information, information on directors, location and description of major buildings. Inflation adjusted financial information was not disclosed by any company.

A number of factors accounted for non-disclosure or low disclosure of certain types of information in Ghana, as gathered from interviewing corporate executives. Among the reasons identified were the fear of being placed in a competitive disadvantageous position, increased direct information production costs, desire to avoid raising the expectations of shareholders and the possibility of employees using data to agitate for increased remuneration. The following comments reflected the views of respondents:

> "Strategies cannot be revealed since it may lead to a competitive disadvantage" [Ampah, Guinness Ghana Limited, 13 August 1998].
>
> "Inflation accounting is probably a fairly thorny subject in Ghana. It will be a very complex subject to administer... and for a majority of users it might be complex to understand... I am not sure whether users would appreciate its usefulness to justify the time and resources to use to produce such information." [B. Dean, Finance Director, Pioneer Tobacco Company Limited, 12 August, 1998].
>
> "It is difficult to forecast in the volatile Ghanaian environment... If you provide [forecasts], shareholders will hold you to non-achievement. We have to be cautious about giving forecasts... Rather, broad and general forecasts have to be disclosed" [J. P. A. Nyako, Managing Director, Aluworks Limited, 6 July, 1998].

12.7 CONCLUSION

This chapter has examined the extent of corporate disclosure of information in annual report in Ghana from 1988-1997. The study focused on analysis of overall disclosure, mandatory disclosure and voluntary disclosure and disclosure of categories information. The disclosure positions of the companies studied were also evaluated. Some of the factors which influenced the disclosure of information in annual report in Ghana were noted, albeit, generally. An analysis of the influence of three factors, namely, firm size, listing status and accounting regulation, on the extent of disclosure of information in annual reports in Ghana is attempted in the next chapter.

H12

FINANCIAL REPORTING IN EMERGING CAPITAL MARKETS: A CASE STUDY OF GHANA

VOLUME 2

by

KOFI KODUAH SARPONG
B.Sc., MBA (Ghana), M.Acc. (Glasgow), CA(Ghana)

This thesis is submitted for the degree of Doctor of Philosophy in the Warwick Business School, University of Warwick, Coventry.

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CHAPTER XIII

IMPACT OF FIRM SIZE, LISTING STATUS AND ACCOUNTING REGULATION ON DISCLOSURE IN ANNUAL REPORTS IN GHANA

13.1 INTRODUCTION

As was observed in chapter XII, a number of factors may explain the extent of disclosure in Ghana. A more rigorous analysis of the impact of three of these factors, namely, firm size, listing status and accounting regulation on disclosure in Ghana is considered in this chapter. Three hypotheses were tested which were:

Hypothesis 5

Size is positively associated with corporate disclosure in annual reports in Ghana.

Hypothesis 6

Listing status is positively associated with corporate disclosure in annual reports in Ghana.

Hypothesis 7

Accounting regulation is positively associated with corporate disclosure in annual reports in Ghana.

The impact of the three factors was analysed separately, where relevant, for overall disclosure, mandatory disclosure, voluntary disclosure and disclosure of categories of information. The categories of information considered were company background, financial review, non-financial and social, value added, accounting policies, cash flow, profitability and state of affairs. The results are reported in sections 13.2, 13.3, 13.4 and 13.5 respectively. A summary and discussion of the results are presented in section 13.6. Conclusions are offered in section 13.7.

13.2 FACTORS INFLUENCING OVERALL DISCLOSURE IN ANNUAL REPORTS IN GHANA

13.2.1 FIRM SIZE AND OVERALL DISCLOSURE

As reported in Table 13.1, overall disclosure increased from 63.7% in 1988 to 73.3% in 1997. The average overall disclosure for the ten years, 1988-1997, was 67.5%. Results of the Kendall's tau b test and Spearman's rank correlation test used to test the existence of a significant positive association between size, proxied by sales, and the extent of overall disclosure at the 5% level of significance reported in Table 13.1 reveal significant correlation coefficients for each year and the ten year period, 1988-1997. The two-tailed probability for the Kendall's tau b ranged between 0.001 and 0.020 while in the case of the Spearman's rank correlation it ranged between 0.000 and 0.024. Hypothesis 5 is therefore supported in respect of overall disclosure. It is concluded that size was positively associated with overall disclosure in Ghana from 1988-1997.

Table 13.1: Size and Overall Disclosure in Ghana: 1988-1997- Test of Significance

	Disclosure Index	Kendall's tau b		Spearman's rank correlation	
Year/period	%	coefficient	two-tailed probability	coefficient	two-tailed probability
1988	63.7	0.448*	0.020	0.579*	0.024
1989	64.3	0.600**	0.002	0.757**	0.001
1990	64.7	0.467*	0.015	0.646**	0.009
1991	63.6	0.638**	0.001	0.775**	0.001
1992	66.1	0.619**	0.001	0.725**	0.002
1993	68.8	0.619**	0.001	0.789**	0.000
1994	70.8	0.543**	0.005	0.732**	0.002
1995	69.4	0.543**	0.005	0.768**	0.001
1996	70.0	0.600**	0.002	0.811**	0.000
1997	73.3	0.600**	0.002	0.782**	0.001
1988-1997	67.5	0.810**	0.000	0.921**	0.000

* Significant at 5% level
** Significant at 1% level

13.2.2 LISTING STATUS AND OVERALL DISCLOSURE

The overall disclosure indexes of all the companies studied were 64.0% and 71.7% for the pre-listing period (1988-1989) and the post-listing period (1996-1997) respectively. Thus, the overall disclosure index increased by 6.7% in the post-listing period from the level recorded in the pre-listing period. Results of the sign test of a significant positive association between listing status and overall disclosure at the 5% level of significance were significant (p=0.007). Hypothesis 6 is therefore affirmed in respect of overall disclosure. It is concluded, therefore, that the overall disclosure of information by companies in Ghana increased significantly on entering the capital market.

13.2.3 ACCOUNTING REGULATION AND OVERALL DISCLOSURE

The overall disclosure in the periods during which accounting regulation was introduced are reported in Table 13.2. As evident, overall disclosure increased in Ghana from 1991-1997 following the introduction of the GSE listing regulations and GNASBSs. The overall disclosure indexes in the periods when new accounting regulations were introduced, 1991-1993, 1995-1997 and 1991-1997, were higher than the period before their introduction (i.e. 1988-1990). As evident from Table 13.3, the period which experienced the highest level of accounting regulation, 1995-1997, recorded the highest overall disclosure with an index of 70.9%. The lowest overall disclosure index of 64.2% occurred during the period of low accounting regulation, 1988-1990. Indeed, overall disclosure of information increased with successive introduction of new and additional accounting regulation.

Table 13.2: Impact of Accounting Regulation on Overall Disclosure in Ghana: 1988-1997

Period	Applicable regulation	Disclosure index (%)	Rank
1988-1990	Ghana Companies Code	64.2	4
1991-1993	Ghana Companies Code and GSE Listing Regulations	66.2	3
1995-1997	Ghana Companies Code, GSE Listing Regulations, and GNASBSs	70.9	1
1991-1997	Ghana Companies Code, GSE Listing Regulations, and GNASBSs[1]	68.9	2

[1]GNASBSs were not applicable in 1991-1994

Table 13.3: Accounting Regulation and Overall Disclosure in Ghana: 1988-1997- Sign Test of Significance

Accounting Regulation Periods	two-tailed Probability
1988-1990 versus 1991-1993	0.118
1988-1990 versus 1995-1997	0.035
1988-1990 versus 1991-1997	0.007

Results of the Sign test reported in Table 13.3 reveal that a significant positive association existed between accounting regulation and overall disclosure in the periods 1991-1997 and 1995-1997 but not 1991-1993 at the 5% level of significance. The results suggest that the GSE listing regulations on their own did not have a significant impact on overall disclosure from 1991-1993 (p= 0.118) so Hypothesis 7 is not supported. The combined effects of GSE listing regulations and GNASBSs, however, had a significant impact on overall disclosure from 1991-1997 (p= 0.007) and 1995-1997 (*p*= 0.035) thereby affirming Hypothesis 7. It is concluded that the introduction of GSE listing regulation and GNASBSs influenced significantly the extent of overall disclosure in Ghana from 1991-1997. However, as evident from the results of the Sign test, the significant impact of accounting regulation on overall disclosure was recorded after 1993.

13.3 FACTORS INFLUENCING MANDATORY DISCLOSURE IN ANNUAL REPORTS IN GHANA

13.3.1 FIRM SIZE AND MANDATORY DISCLOSURE

In all, mandatory disclosure declined from 92.2% in 1988 to 87.9% in 1997 with an average of 89.2% for the ten year period in Ghana as reported in Table 13.4. The decline in compliance with mandatory disclosure requirements coincided with the introduction of new accounting regulations in 1991 and 1995. Results of the Kendall's tau b test and Spearman's rank correlation test reported in Table 13.4 reveal that the coefficients for each year and the ten year period are not significant for either test at the 5% level of significance. There is, therefore, a lack of support for Hypothesis 5 in respect of mandatory information. The results indicate that size was not an influential factor on disclosure of mandatory information in Ghana from 1988-1997.

Table 13.4: Size and Mandatory Disclosure in Ghana: 1988-1997 - Test of Significance

	Disclosure Index	Kendall's tau b		Spearman's rank correlation	
Year/period	%	coefficient	two-tailed probability	coefficient	two-tailed probability
1988	92.2	0.077	0.692	0.091	0.680
1989	92.3	0.185	0.586	0.146	0.747
1990	93.5	0.096	0.620	0.102	0.718
1991	88.3	0.067	0.729	0.114	0.685
1992	87.0	0.172	0.372	0.195	0.487
1993	87.7	0.162	0.400	0.157	0.576
1994	88.3	0.268	0.165	0.263	0.344
1995	86.8	0.086	0.656	0.114	0.685
1996	87.9	0.124	0.520	0.154	0.585
1997	87.9	0.077	0.692	0.155	0.580
1988-1997	89.2	0.162	0.400	0.282	0.308

13.3.2 LISTING STATUS AND MANDATORY DISCLOSURE

Mandatory disclosure indexes of all the companies studied before listing (1988-1989) and after listing (1996-1997) on the GSE were 92.3% and 87.9% respectively. Thus, compliance with mandatory disclosure requirements declined by 4.4% after listing. At the 5% level of significance, the Sign test revealed that the reduction in compliance with mandatory disclosure requirements experienced in the post-listing period from the pre-listing period level was significant (p=0.001). In respect of mandatory disclosure, therefore, Hypothesis 6 is rejected in Ghana. It is concluded that compliance with mandatory disclosure requirements in Ghana reduced significantly after companies listed on the GSE.

13.3.3 ACCOUNTING REGULATION AND MANDATORY DISCLOSURE

The level of mandatory disclosure declined from 1991-1997 following the introduction of new accounting regulations in Ghana as can be seen in Table 13.5. From a level of 90.9% during the period 1988-1990, compliance with mandatory requirements declined to 87.7% from 1991-1993 when the GSE listing regulation was in force. A further decline in mandatory disclosure occurred from 1995-1997, which coincided with the introduction of GNASBSs. A mandatory disclosure index of 87.4% was

Table 13.5: AccountingRegulation and Mandatory Disclosure in Ghana: 1988-1997

Period	Applicable regulation	Mandatory disclosure index (%)	Rank
1988-1990	Ghana Companies Code	90.89	1
1991-1993	Ghana Companies Code and GSE Listing Regulations	87.66	4
1995-1997	Ghana Companies Code, GSE Listing Regulations, and GNASBSs	87.44	2
1991-1997	Ghana Companies Code, GSE Listing Regulations, and GNASBSs[1]	87.40	3

[1]GNASBSs were not applicable in 1991-1994

recorded from 1995-1997. The entire period during which the GSE listing regulation and the GNASBSs were introduced, 1991-1997, also witnessed a reduction in compliance with mandatory requirements compared to the period 1988-1990.

At the 5% level of significance, the Sign test of association between accounting regulation and mandatory disclosure reveal that the reduced mandatory disclosure during the period of high regulation compared to the period of low regulation was significant (1988-1990 & 1991-1997, p=0.007; 1988-1990 & 1995-1997, p=0.035; 1988-1990 & 1991-1993, p=0.007). Hypothesis 7 is, therefore, not supported in Ghana from 1991-1997 with regard to mandatory disclosure. It is concluded that the period of high accounting regulation coincided with significant reduction in compliance with mandatory disclosure requirements by companies in Ghana compared to the period of low accounting regulation.

13.4 FACTORS INFLUENCING VOLUNTARY DISCLOSURE IN ANNUAL REPORTS IN GHANA

13.4.1 FIRM SIZE AND VOLUNTARY DISCLOSURE

As presented in Table 13.6, voluntary disclosure increased each year over the ten years. From 15.7% in 1988, voluntary disclosure increased to 30.4% in 1997 with an average of 22.0% for the ten year period, 1988-

1997. Results of the Kendall's tau b and Spearman's correlation coefficient tests of the existence of a significant positive association between corporate size, measured by sales, and the extent of voluntary disclosure

Table 13.6: Size and voluntary disclosure in Ghana: 1988-1997- Test of Significance

	Disclosure Index	Kendall's tau b		Spearman's rank correlation	
Year/period	%	coefficient	two-tailed probability	coefficient	two-tailed probability
1988	15.7	0.367	0.064	0.552*	0.033
1989	17.0	0.411*	0.039	0.534*	0.040
1990	15.9	0.351	0.073	0.499	0.058
1991	17.8	0.510**	0.009	0.698**	0.004
1992	19.4	0.651**	0.001	0.838**	0.000
1993	20.9	0.483*	0.013	0.646**	0.009
1994	25.1	0.562**	0.004	0.757**	0.001
1995	29.8	0.555**	0.004	0.769**	0.001
1996	29.9	0.663**	0.001	0.848**	0.000
1997	30.4	0.567**	0.003	0.775**	0.001
1988-1997	22.0	0.638**	0.000	0.811**	0.000

* Significant at 5% level
** Significant at 1% level

at the 5% level of significance are reported in Table 13.6. The Kendall's tau b test reveal significant correlation coefficients in all the years studied, but 1988 and 1990. The Spearman's correlation coefficient test gives significant results in every year except 1990. Both tests were significant in the ten year period, 1988-1997. Hypothesis 5 is, therefore, partially affirmed in respect of voluntary disclosure in Ghana from 1988-1997. It is not affirmed by both tests in 1990 and in 1988 also using the Kendall's tau b test. It is concluded that with the exception of 1988 and 1990, size was a significant influence on the disclosure of voluntary information by companies in Ghana from 1988 to 1997.

13.4.2 LISTING STATUS AND VOLUNTARY DISCLOSURE

The voluntary disclosure indexes of the companies studied before (1988-1989) and after (1996-1997) listing on the GSE were 16.3% and 30.2%. There was, therefore, an increase of 13.9% in voluntary disclosure after companies listed on the GSE compared to the level before listing. At the 5% level of significance, the Sign test reveal the existence of a significant positive association between listing status and voluntary disclosure (p=0.007). Thus, Hypothesis 6 is accepted in Ghana so far as voluntary disclosure is concerned. It is concluded that a GSE listing led to a significant increase in the disclosure of voluntary information by companies in Ghana from 1996-1997.

13.5 FACTORS INFLUENCING DISCLOSURE OF CATEGORIES OF INFORMATION IN ANNUAL REPORTS IN GHANA

13.5.1 FIRM SIZE AND DISCLOSURE OF CATEGORIES OF INFORMATION

Results of the Kendall's tau b and Spearman's correlation coefficient tests used to test the existence of a significant positive association between size, proxied by sales, and extent of disclosure of categories of information

Table 13.7: Size and Disclosure of Categories of Information in Ghana: 1988-1997- Test of Significance

	Kendall's tau b		Spearman's rank correlation	
Category of Information	coefficients	two-tailed probability	coefficients	two-tailed probability
Company background	0.116	0.551	0.143	0.490
Financial review	0.541**	0.005	0.688**	0.005
Value added	0.552**	0.008	0.649**	0.009
Non-financial and social	0.625**	0.001	0.801**	0.000
Accounting policies	0.371	0.054	0.496	0.060
Profitability	0.467*	0.015	0.636*	0.011
State of affairs	0.448**	0.020	0.643**	0.010
Cash flow	0.537	0.108	0.441	0.100

* Significant at 5% level
** Significant at 1% level

for the ten years, 1988-1997, at the 5% level of significance are reported in Table 13.7. Both tests reveal significant results for five of the eight categories of information for which Hypothesis 5 is supported. These five categories are financial review information, non-financial information, value added information, profitability information and state of affairs information. The three categories for which the results are not significant and therefore Hypothesis 5 cannot be supported, are company background information, accounting policies and cash flow. In effect, the observed quantity of disclosure in respect of cash flow, accounting policies and company background cannot be explained by the sizes of the companies studied. It is concluded that there is partial support for Hypothesis 5 for categories of information in Ghana from 1988-1997.

13.5.2 LISTING STATUS AND DISCLOSURE OF CATEGORIES OF INFORMATION

As presented in Table 13.8, with the exception of state of affairs information, disclosure of all categories of information by the companies studied increased after listing compared to the period before listing on the GSE. The highest increase in disclosure occurred with financial review (20.6%). Following financial review, the descending order of increases in disclosures were value added (16.1%), cash flow (13.3%), non-financial and social (8.9%), accounting policies (8.3%), profitability (5.0%) and company background information (3.7%). Disclosure of state of affairs information, however, decreased by 1.8% in the post-listing period compared to the pre-listing period.

At the 5% level of significance, results of the Sign test reported in Table 13.8 reveal the existence of a significant positive association between listing status and the disclosure of three categories of information for which Hypothesis 6 is confirmed. These three categories are company background information (p= 0.008), financial review information (p= 0.001) and profitability information (p= 0.035). Hypothesis 6 is not supported for five categories of information which are: value added (p= 0.375), non-financial and social information (p= 0.227), accounting policies (p= 0.065), cash flow (p= 0.500) and state of affairs information (p= 1.000), which decreased in disclosure. The results lend a partial support to Hypothesis 6. It is concluded, therefore, that size was not a significant influence on the disclosure of all the categories of information investigated in Ghana from 1988-1997.

Table 13.8: Listing status and Disclosure of Categories of Information in Ghana: 1988-1997- Test of Significance

	Pre-listing index	Post-listing index	Change in index	Sign test
	col. 1	col. 2	col. 3 (2-1)	
Category of Information	%	%	%	Two-tailed probability
Company background	74.8	78.5	+3.7	0.008
Financial review	13.9	34.5	+20.6	0.001
Value Added	15.6	31.7	+16.1	0.375
Non-financial and social	13.9	22.8	+8.9	0.227
Accounting policies	68.4	76.7	+8.3	0.065
Profitability	75.8	80.8	+5.0	0.035
State of affairs	80.8	79.0	-1.8	1.000
Cash flow	86.7	100.0	+13.3	0.500

13.5.3 ACCOUNTING REGULATION AND DISCLOSURE OF CATEGORIES OF INFORMATION

The impact of accounting regulation was assessed for five categories which included mandatory items. The analysis was done such that all companies faced the same disclosure requirements in the period of low accounting regulation and the period of high accounting regulation. This was necessary since companies were listed at different times and therefore faced different levels of disclosure regulation at one time or the other. The relevant periods for each category of information are indicated in Table 13.9. With the exception of state of affairs information, disclosures of all categories of information were higher in the period of high accounting regulation than in the period of low accounting regulation. The lowest and highest increases in disclosure were recorded for company background information (3.6%). and cash flow information (13.3%) respectively. Profitability information and accounting policies increased by 5.3% each. State of affairs information, however, decreased by 2.0%.

At the 5% level of significance, results of the Sign test reported in Table 13.9 reveal the existence of a significant positive association between accounting regulation and the disclosure of three of the five categories of information. The three categories for which Hypothesis 7 is supported in Ghana are company background information (p= 0.008), accounting policies (p= 0.012) and profitability information (p= 0.035). There is, however, a lack of support for Hypothesis 7 for two categories of information. These two categories are state affairs information ((p= 1.000), which decreased in disclosure, and cash flow information (p= 0.500). With respect to categories of information, there is a partial support for Hypothesis 7 in Ghana. It is concluded, therefore, that the introduction of new accounting regulation led to a significant increase in the disclosure of some, but not all, categories of information in Ghana from 1988-1997.

Table 13.9: Accounting Regulation and Disclosure of Categories of Information in Ghana: 1988-1997- Sign test of Significance

		Low regulation	High regulation	Disclosure difference	
		col. 1	col. 2	col. 3 (1-2)	
Category of Information	**Periods**	**%**	**%**	**%**	**Two-tailed probability**
Company background	1988-1990 & 1996-1997	74.9	78.5	+3.6	0.008
Accounting policies	1988-1990 & 1995-1997	71.4	76.7	+5.3	0.012
Profitability	1988-1990 & 1995-1997	75.7	81.0	+5.3	0.035
State of affairs	1988-1990 & 1996-1997	81.0	79.0	-2.0	1.000
Cash flow	1988-1990 & 1995-1997	86.7	100.0	+13.3	0.500

13.6 SUMMARY OF RESULTS AND DISCUSSION

Firm size was found to be significantly positively associated with overall and voluntary disclosures but not mandatory disclosure in Ghana. The findings pertaining to overall and voluntary disclosures are consistent with findings in India [Singhvi, 1967], USA [Cerf, 1961, Singhvi and Desai, 1971; Buzby, 1975; Cowen et. al., 1987; Meek et al., 1995], UK [Firth, 1979b; Meek et al., 1995], Continental Europe [Meek et al., 1995], Sweden [Cooke, 1989a, 1989b], Japan [Cooke, 1991; 1992, 1996], New Zealand [McNally et al., 1982; Hossain et al., 1995], Mexico [Chow and Wong-Boren, 1987], Switzerland [Raffournier, 1995], Malaysia [Hossain et al., 1994], Spain [Wallace et. al., 1994], Saudi Arabia [Al-Modahki, 1995] and Canada [Neu et al., 1998]. The finding is, however, inconsistent with what Wallace [1987] and Solas [1994] found in Nigeria and Jordan respectively. Wallace [1987] did not find a significant positive association between size and overall disclosure and voluntary disclosure in Nigeria. A result similar to Wallace's [1987] was obtained by Solas [1994] in his study of voluntary disclosure in Jordan. The lack of significant positive association between firm size on mandatory disclosure of information in Ghana was consistent with findings in Bangladesh [Ahmed and Nicholls, 1994].

Large firms in Ghana disclosed more financial review, state of affairs, non-financial and social and value added information than small firms. Large and small firms in Ghana, however, attached equal importance to cash flow information, company background information and accounting policies.

Large firms in the sample studied in Ghana were motivated to disclose significantly more voluntary information than small firms presumably in order to reduce their relatively high cost of monitoring the actions of management. Intense public and government scrutiny of large firms relative to small firms could have driven the former category of companies to disclose significantly more voluntary information than the latter category. In particular, the disclosure of significantly more information by large firms compared to small firms was probably a means used by the former to increase transparency of their activities and thereby minimise political costs. It was also likely that large firms were in a better position to bear the direct and indirect costs associated with the disclosure of information than small firms, hence, their better disclosure.

The lack of significant positive impact of size on the disclosures of mandatory information and accounting policies could be attributed to the influence of auditors. All the companies studied, but one, was audited by the then 'Big Six' international firms of accountants who used high accounting and auditing standards. As gathered during interviews, the auditors perceived the companies studied as the 'blue chips' and applied the highest level of standards which incorporated the key requirements of financial reporting requirements in Ghana which might have possibly led to similar compliance levels.

A significant positive association between listing status and overall disclosure and voluntary disclosure was found in Ghana. These findings are consistent with earlier findings in India [Singhvi, 1967], USA [Singhvi and Desai, 1971], UK [Firth, 1979b], Continental Europe [Meek et al., 1995], Sweden [Cooke, 1989a, 1989b], Japan [Cooke, 1991, 1992, 1996], and Spain [Wallace et al., 1994]. The findings reveal also that the companies in Ghana increased their disclosure on entry into the capital markets which is consistent with what Choi [1973] found when companies entered the Euromarket to raise capital.

A GSE listing influenced significantly the disclosure of financial review information, company background information and profitability information. No significant positive association between mandatory disclosure, non-financial and social information, value added information, cash flow information, accounting policies, and state of affairs information and listing was found in Ghana.

A greater level of public scrutiny under which the newly listed companies then found themselves, might have necessitated and provoked them to increase overall disclosure, voluntary disclosure, and the disclosure of profitability information and financial review information. These disclosures might have been used by the companies to adequately explain the results of the period and the financial position of the company in general to the wider group of shareholders and potential new investor audience.

The disclosure of mandatory information and state of affairs information by companies even decreased after listing on the GSE. Although a number of similar mandatory items which existed before and after listing were largely complied with, disclosure requirements, particularly, those introduced under the GSE listing regulation in the post-listing period, attained only minimal compliance, hence, the overall reduction in mandatory disclosure.

Accounting regulation was a major factor which positively influenced the extent of overall disclosure in Ghana and some categories of information from 1988-1997. The disclosures of categories of information which were positively influenced significantly by the introduction of accounting regulations in Ghana were company background information, accounting policies and profitability information. The period of high accounting regulation, however, witnessed relatively lower compliance with mandatory requirements and state of affairs information than the period of low accounting regulation. The disclosure of cash flow information was also not significantly influenced positively by the introduction of the new accounting regulations in Ghana.

The reduced compliance with mandatory disclosure following the introduction of the new accounting regulations in Ghana might have been due to the fact that companies took some time to assess the costs and benefits before complying with disclosure requirements. In addition to the reason given above, the lack of significant impact of accounting regulation on disclosure of state of affairs information may be explained by the congruency of the requirements of the new accounting regulations, GSE listing regulations and GNASBSs and the Ghana Companies Code, Act 179, which companies were largely complying even before the introduction of new accounting regulations. The lack of impact of the introduction of accounting regulation on disclosure of cash flow information could be explained by the fact that many of the companies studied were disclosing the item before it was made mandatory by GSE listing regulations and GNASBSs. The voluntary disclosure of cash flow information in Ghana was likely to have been influenced by IASC standards and the GAAPs of UK, USA and France which were used by the companies studied.

13.7 CONCLUSION

The impact of firm size, listing status and accounting regulation on disclosure of information in annual report in Ghana from 1988-1997 has been examined individually. The three factors were observed to have had varying degrees of influence on the disclosure of information in annual reports of the companies in Ghana. The findings confirmed some earlier findings in studies undertaken in other countries. It is conceded that the analysis done in this study has not been able to indicate the precise strength of each of the three factors investigated on disclosure nor revealed the possible multicollinearlity effects which might exist among them. The data set used precluded the use of regression analysis, which could have analysed the strength of each of the factors on disclosure. Hence, the findings should be viewed with this proviso in mind.

CHAPTER XIV

RELEVANCE, PROMOTION AND OBSERVANCE OF IASC STANDARDS IN GHANA

14.1 INTRODUCTION

The formation of the IASC in the early 1970s was a significant landmark in the development of accounting standards for worldwide application. Although the IASC has not been insulated from criticism, particularly, with regard to the relevance of its work to developing countries, it has succeeded in developing some standards considered relevant to and suitable for worldwide application. The extent to which the accounting standards issued by the IASC are applied by companies is still not clear, notwithstanding the pledge by professional accountants to promote them. In the light of the above, this study investigated three issues. The first concerned the extent to which IASC standards are perceived to be useful and influential in the emerging capital market of Ghana. The second was the degree to which professional accountants in Ghana have promoted the observance of IASC standards. The third was an evaluation of the extent to which disclosure in annual reports in Ghana are in line with IASC standards and the factors influencing it. The factors examined were firm size, listing status and accounting regulation. Four hypotheses were tested which were:

Hypothesis 8
IASC standards are an influential factor in the Ghana capital market.

Hypothesis 9
Size is positively associated with the observance of IASC standards in annual reports in Ghana.

Hypothesis 10
Listing status is positively associated with the observance of IASC standards in annual reports in Ghana.

Hypothesis 11
Accounting regulation is positively associated with the observance of IASC standards in annual reports in Ghana.

The findings in respect of the above hypotheses and other objectives of the study are reported in this chapter. The relevance of IASC standards in the context of the Ghana capital market is discussed in section 14.2. The respective roles of the Institute of Chartered Accountants (Ghana) and professional auditing firms in promoting IASC standards in Ghana are covered in section 14.3 and section 14.4 respectively. Analysis of the extent of observance of IASC standards and the factors influencing it in Ghana are reported in section 14.5. A summary and discussion of the results and findings are presented in section 14.6. Concluding remarks are offered in section 14.7.

14.2 RELEVANCE OF IASC STANDARDS IN THE GHANA CAPITAL MARKET

The relevance of IASC standards in developing countries has been questioned by some writers on accounting [Hove, 1980, 1990; Samuels and Oliga, 1982; Briston, 1990; Samuels, 1990; Peasnell, 1993]. As recognised by many of these critics and other writers, however, IASC standards are perceived to be of relevance in capital markets in developing countries [Briston, 1990; Wallace, 1990, Ndzingbe, 1990; Chamisa, 1994; Nobes and Parker, 1995]; Saudagaran and Diga, 1997b]. This study sought to find out the opinions of participants in the Ghana market on the relevance of IASC standards.

All respondents, comprising financial analysts, auditors, corporate executives and regulators, were unanimous that IASC standards are useful in the context of the GSE.

The auditors who were interviewed considered IASC standards as indexes of best practice which have global relevance and credibility. Two of the auditors remarked:

> "IASC standards are well respected...are superior and have global application." [J. Sey, Partner, Deliotte and Touche, 15 July, 1998].

> "IASC standards are seen as a yardstick of best practice which reflect UK and US GAAP." [K. Tuffour, Partner, KPMG, 28 July 1998].

Two regulators of the GSE felt that the application of IASC standards in the GSE could lead to an increase in investor confidence and contribute to attracting international investors to bring capital into Ghana for investment. They remarked:

> "...Call it the Ghana Stock Exchange but the investors are coming from the international market place where they are used to high level of disclosure reflected in IASC standards." [Y. Amoa, Managing Director, Ghana Stock Exchange, 27 July 1998].

> "IASC standards are desirable and should be encouraged in order to attract international investors. The [Ghana] Stock Exchange is in competition with other emerging markets for finance. Thus, anything which will give a headstart such as IASC standards should be encouraged...IASC standards should be made part of the law to make them enforceable." [K. Anyimadu, Interim Executive Secretary, Securities Regulatory Commission, 7 August 1998].

All the corporate executives who were interviewed agreed that IASC standards should, as far as possible, form the basis of financial reports. They felt that globalization of business and the resultant need to let investors worldwide have confidence about the safety of their investments can, to some extent, be guaranteed if IASC standards are used as the basis for the preparation of financial reports. As observed by a corporate executive:

> "Accounting generally is becoming internationalised... Globalization of companies requires a common language... which IASC standards can help to promote so that comparable

> financial reports which will be understood in a worldwide context will be produced by companies." [K. Kwarteng, Managing Director, Pioneer Aluminium Factory Limited, 6 July 1998].

Like the other respondents, financial analysts who were key users of financial statements saw IASC standards as a useful basis for the production of reliable and comparable financial reports which contribute to enhancing investor confidence and attracting foreign investors. Two of the financial analyst remarked:

> "We are aiming at integrating [Ghana's] economy into the global economy and should conform to IASC standards so that international investors have confidence in accounts of companies." [S. Kyei, Corporate Finance Manager, New World Investments, 18 September 1998].

> "Companies listed on the Ghana Stock Exchange must switch to IASC standards... to improve disclosures in and comparability of financial statements in order to get better positioned in the international market." [A. W. Barnor, General Manager, National Trust Holding Company, 14 September, 1998].

All the respondents agreed that IASC standards should be used as the basis to develop local standards. However, they cautioned against their wholesale adoption. Consistent with the position of writers such as Samuels and Oliga [1982], Wallace [1987, 1990], Samuels [1990, 1993], Briston [1990] and Peasnell [1993], the respondents advised that IASC standards should be adapted to suit the Ghanaian commercial and economic environment. One respondent lamented:

> "We support the development of local accounting standards in principle. We do not, however, have to reinvent the wheel... local accounting standards should be based on IASC standards. Being part of the global environment, it is necessary to be consistent with international trends. However, there are some

> issues which are peculiar to Ghana, e.g. foreign exchange translations and capitalisation of borrowing cost. Our accounting standards should be tailored to deal with the perpetual devaluation of the cedi and also a high bank interest rate of about 50%." [K. Tuffour, Partner, KPMG, 28 July 1998].

All respondents agreed that IASC standards are useful and influential in the context of the Ghana capital market lending support to Hypothesis 8.

14.3 ROLE OF ICAG IN PROMOTING IASC STANDARDS IN GHANA

The ICAG took a first positive step towards the development of accounting standards for application in Ghana in 1992 when it initiated the formation of the GNASB with membership from institutions which were perceived to have an interest in accounting standards. Since the ICAG Secretariat handled the administrative and research work of the GNASB, the modus operandi of the GNASB was ascertained by interviewing the Registrar/Chief Executive of the ICAG, Mr. R. A. Brown, on 13 July 1998. It was found that the GNASB existed only in name. The GNASB was not meeting to do the business entrusted to it.

On realising that the GNASB was not functional, it was learnt that, the ICAG proceeded to issue accounting standards in the name of the more or less moribund GNASB. The Council of the ICAG subsequently adopted IASC standards en bloc and used them as the basis to develop accounting standards in Ghana. In February 1994, the ICAG announced the issue of twenty-eight accounting standards which are detailed in Table 14.1. These standards have not been modified nor any new standard developed since 1994.

Table 14.1: Comparison of GNASB standards and IASC standards

GNASB Standards		IASC Standards	
1	Disclosure of Accounting Policies	1	Disclosure of Accounting Policies
2	Information to be Disclosed in Financial Statements	5	Information to be Disclosed in Financial Statements
3	Revenue Recognition	18	Revenue
4	Cash Flow Statement	7	Cash Flow Statement
5	Extraordinary Items, Fundamental Errors and Changes in Accounting Policies	8	Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies
6	Contingencies and Events Occurring after the Balance Sheet Date	10	Contingencies and Events Occurring after the Balance Sheet Date
7	Presentation of Current Assets and Current Liabilities	13	Presentation of Current Assets and Current Liabilities
8	Accounting for Inventories	2	Inventories
9	Accounting for Property, Plant and Equipment	16	Property, Plant and Equipment
10	Depreciation Accounting	4	Depreciation Accounting
11	Accounting for Leases	17	Accounting for Leases
12	Accounting for Construction Contracts	11	Construction Contracts
13	Accounting for Research and Development Activities	9	Research and Development Costs
14	Accounting for Taxes on Income	12	Income Taxes
15	Reporting Financial Information by Segments	14	Segment Reporting
16	Accounting for Retirement Benefits Costs	19	Retirement Benefits Costs
17	Accounting and reporting for Retirement Benefit Plans	26	Accounting and reporting for Retirement Benefit Plans

Table 14.1: (continued) Comparison of GNASB standards and IASC standards

GNASB Standards		IASC Standards	
18	Accounting for Government Grants and Disclosure of Government Assistance	20	Accounting for Government Grants and Disclosure of Government Assistance
19	Accounting for the Effects of Changes in Foreign Exchange Rates	21	The Effects of Changes in Foreign Exchange Rates
20	Accounting for Business Combinations	22	Business Combinations
21	Capitalisation of Borrowing Costs	23	Borrowing Costs
22	Related Party Disclosures	24	Related Party Disclosures
23	Accounting for Investments	25	Investments
24	Consolidated Financial Statements and Accounting for Investments in Subsidiaries	27	Consolidated Financial Statements and Accounting for Investments in Subsidiaries
25	Accounting for Investments in Associates	28	Accounting for Investments in Associates
26	Financial Reporting in Hyper-inflationary Economies	29	Financial Reporting in Hyper-inflationary Economies
27	Financial Reporting of Interests in Joint Ventures	31	Financial Reporting of Interests in Joint Ventures
28	Disclosures in the Financial Statements of Banks and Similar Institutions	30	Disclosures in the Financial Statements of Banks and Similar Institutions

A significant feature of the GNASBSs is that they are essentially replicas of IASC standards, a comparison of which is provided in Table 14.1. The only standard which has been substantially rewritten compared with the equivalent IASC standard is GNASBS 21 which deals with capitalisation of borrowing costs. GNASBS 21 has borrowed some of the requirements of Financial Accounting Standard No. 34, "Capitalisation of Interest Costs", issued by the Financial Accounting Standards Board in United States of

America. IAS 23, the equivalent IASC standard to GNASBS 21, was modified in Ghana to reflect the circumstances of the country. This has been explained as follows:

> "With the onset of the Structural Adjustment Programme, major international lending institutions have also become significant sources of borrowed funds. The utilisation of borrowed funds has resulted in companies incurring material borrowing costs... Accordingly, the treatment of borrowing costs should be critically reviewed and specific methods defined for uniform and consistent adoption for financial statement preparation and reporting." [GNASBS 21, p.3].

In 1997, the cut-off date for analysis in this study, the ICAG had adopted twenty-eight of the then existing IASC standards. The two IASC standards had not been adopted by the ICAG were IAS 15 "Information Reflecting the Effects of Changing Prices" and IAS 32 "Financial Instruments". The exclusion of IAS 15 by the ICAG was influenced by the decision of the IASC in 1989 to make it optional as captured in the following statement:

> "The international consensus on the disclosure of information reflecting the effects of changing prices that was anticipated when IAS 15 was issued has not been reached. As a result, the Board of IASC has decided that enterprises need not disclose the information required by IAS 15 in order that their financial statements conform with International Accounting Standards. However, the Board encourages enterprises to present such information and urges those that do so to disclose the items required by IAS 15." [IASC, 1997: 248].

To some extent, GNASB 26 'Financial Reporting in Hyperinflationary Economies', meets the need to account for the effects of price changes in the Ghanaian environment which has been characterised by very high inflationary pressures as noted in Chapter II. IAS 32, 'Financial instruments' became effective in 1996 after the project which brought into being GNASBSs in 1994 had been completed. The IASC has now published its core standards indicating introduction of additional standards in 1999 as indicated in Chapter IV. It is expected that the ICAG will, in future, deal with the new topics and the old standards which have not yet been issued.

At the time of this study, the ICAG had printed and distributed the twenty-eight GNASBSs to its members. As part of its Continuing Professional Education programme, the ICAG organised seminars to introduce its members to the GNASBSs and IASC standards. As further support for IASC standards by the ICAG, new standards were serialised in the Institute's journal and newsletter for members attention.

Although the ICAG had not conducted research to ascertain the level of observance of IASC standards, the efforts it had made since 1994 signified a positive support for the promotion of such standards in Ghana. The ICAG needs, however, to ensure that its members observe the GNASBSs which will amount to observing IASC standards.

It was also noted from the interview held with the Registrar/Chief Executive of the ICAG, Mr R. A. Brown, on 13 July 1998 that the Institute is contemplating establishing a Financial Reporting Council. It was hinted that the Financial Reporting Council will have the responsibility of ensuring that members of the ICAG observe GNASBSs. Such a body will assist to identify areas of non-compliance with financial regulations in Ghana for corrective measures to be taken, hence, its establishment should be expedited.

The findings indicate that the ICAG has not adopted all IASC standards. The ICAG had adopted 28, representing 93.3%, of the 30 IASC standards which were in existence as at 31 December 1997, the cut-off date for this study. It is, therefore, concluded the ICAG had largely lived up to the pledge to promote the adoption and observance of IASC standards in Ghana since 1995.

14.4 ROLE OF PROFESSIONAL ACCOUNTING FIRMS IN PROMOTING IASC STANDARDS IN GHANA

Partners in the five public accounting firms covered in the study confirmed that they encouraged their clients to use IASC standards. The reasons advanced by the auditors for the use of IASC standards were globalisation of business, search for best practice, global consolidation of financial statements and harmonisation of financial reporting worldwide. The following comments made by some respondents are worth noting:

> "The key companies operating in Ghana are subsidiaries of MNCs and are international in outlook... hence the use of IASC standards is in order." [J. Sey, Partner, Deloitte and Touche, 15 July 1998].

> "...the subsidiaries of multinational companies in Ghana use IASC standards mainly because it is a requirement for consolidation by their parents companies." [K. Tuffour, Partner, KPMG, 28 July 1998].

> "The international accounting firms operate in harmony with what is happening in the IASC in view of its objective of harmonisation. The international [accounting] firms are interested in harmonisation." [P. Abotsie, Partner, Price Waterhouse Coopers, 29 July 1998].

The auditors also saw IASC standards as indexes of best practice which they used as quality control in the delivery of services. Relative to IASC standards, the financial reporting requirements of the Ghana Companies Code were judged inadequate in the light of the dynamics of the business environment. A respondent commented:

> "We insist on the use of best practice which goes beyond the Ghana Companies Code. We look for the best practice internationally and the first port of call is the IASC standards which we use for the best measure." [P. Abotsie, Partner, Price Waterhouse Coopers, 29 July 1998].

The auditors indicated that they incorporated IASC standards in their audit programmes, a view which was buttressed by the following remarks:

> "Audit programmes of Deliotte and Touche cater for all IASC standards." [J. Sey, Partner, Delliote and Touche, 15 July 1998].

> "The key IASC standards are incorporated into checklists used by KPMG for the audit." [K. Tuffour, Partner, KPMG, 28 July 1998].

> "Checklist for audit conclusions and compliance incorporates IASC standards taking into account specific country differences." [P. Abotsie, Partner, Price Waterhouse Coopers, 29 July 1998].

By incorporating IASC standards into the audit programme, the auditing firms indirectly moved companies towards such accounting standards through ensuring compliance. A respondent noted:

> "Audit programmes and checklists are based on IASC standards and we expect clients to conform." [Adu-Gyamfi, N., Manager, Panel Kerr Forster, 16 July 1998].

Finally, where accountancy work was undertaken by the professional firm, IASC standards were used as the guide. As remarked by one respondent:

> "In doing a lot of the accounting ourselves we ensure that IASC standards are observed." [Parry, J. E. K. A., Partner, Rockson, Adoe & Parry Co., 17 July 1998].

On the whole, as far as can be gathered from the interviews with the auditors of the five firms studied, public accounting firms are promoting the observance of IASC standards in Ghana.

14.5 OBSERVANCE OF IASC STANDARDS BY COMPANIES IN GHANA

14.5.1 Extent of observance of IASC standards

Four (26.7%) companies mentioned the use of IASC standards in their annual reports. Three of the four companies, namely, Unilever Ghana Limited, Paterson Zochonis Ghana Limited and UTC Estates of Ghana

Limited, indicated the application of IAS 25 in the valuation of investment properties. Accra Brewery Limited, however, disclosed a statement of directors' responsibilities in which it mentioned that all International Accounting Standards considered to be appropriate had been followed.

Table 14.2: Application of IASC Standards and other GAAPs in Ghana

Name of Company	Country of origin	GAAPs used by company
Accra Brewery Limited	UK	IASC standards, UK GAAP
Aluworks Limited	Ghana	IASC standards, UK GAAP
CFAO Ghana Limited	France	IASC standards, France GAAP
Fan Milk Limited	Denmark	IASC standards
Guinness Ghana Limited	UK	UK GAAP
Kumasi Brewery Limited	Netherlands	IASC standards, UK GAAP
Mechanical Lloyd Company Limited	Ghana	IASC standards
Metalloplastica Ghana Limited	Ghana	IASC standards
Mobil Oil Ghana Limited	USA	IASC standards, US GAAP
Pioneer Aluminium Factory Limited	Ghana	IASC standards
Pioneer Tobacco Company Limited	UK	UK GAAP
Super Paper Products Company Limited	Ghana	IASC standards, UK GAAP
Unilever Ghana Limited	UK	IASC standards, UK GAAP

The observance of IASC standards by companies was further established through interviewing thirteen corporate executives whose responses are reported in Table 14.2. The results indicate that a majority (84.6%) of the companies surveyed used IASC standards in the preparation of financial statements. A minority two (15.4%) companies which did not observe IASC standards were Guinness Ghana Limited and Pioneer Tobacco Company Limited. These two companies which are subsidiaries of UK multinational applied UK GAAP.

In addition to IASC standards, the companies used UK or US or French GAAP. The trend in the application of the GAAPs of other countries were largely influenced by the country of origin of companies, multinational companies and the professional training of key accounting personnel. Five companies which were of UK origin, namely, Unilever Ghana Limited, Pioneer Tobacco Company Limited, Accra Brewery Limited, Kumasi Brewery Limited and Guinness Ghana Limited, used UK GAAP. The French accounting plan was used by CFAO Ghana Limited, a subsidiary of a French multinational. Mobil Oil Ghana Limited, a subsidiary of a US multinational, applied US GAAP. Two Ghanaian-owned companies, Aluworks Limited and Super Products Company Limited, also indicated the application of UK GAAP which was found to be due to the influence of their accounting personnel who trained in the UK.

Appendix 25 reports conformity indexes for companies from 1988-1997. On the whole, observance of IASC standards increased over the ten years. The average conformity indexes of all the companies studied increased from 84.9% in 1988 to 90.2% in 1997 with an average of 88.0% for the ten year period. With the exception of Mechanical Lloyd Company Limited which recorded 74.0%, being the lowest level of observance of IASC standards, all the companies studied recorded conformity indexes exceeding 80%. Mobil Oil Ghana Limited was the leader in the observance of IASC standards from 1988-1997 with a conformity index of 92.9%.

14.5.2 FIRM SIZE AND OBSERVANCE OF IASC STANDARDS

The Kendall's tau b and Spearman's rank correlation tests were used to analyse the existence of a significant positive association between size, measured by sales, and the extent of observance of IASC standards at the

Table 14.3: Size and Observance of IASC standards in Ghana: 1988-1997- Test of Significance

Year/Period	Kendall's tau b		Spearman's rank correlation	
	Correlation coefficient	2-tailed probability	Correlation coefficient	2-tailed probability
1988	0.181	0.347	0.257	0.355
1989	0.268	0.165	0.395	0.145
1990	0.162	0.400	0.236	0.398
1991	0.221	0.254	0.363	0.183
1992	0.257	0.181	0.364	0.182
1993	0.221	0.276	0.284	0.305
1994	-0.057	0.766	-0.086	0.761
1995	0.086	0.656	0.136	0.630
1996	0.010	0.961	0.007	0.980
1997	-0.067	0.729	-0.075	0.791
1988-1997	0.257	0.181	0.393	0.147

5% level of significance. The results of the tests are reported in Table 14.3. The correlation coefficients obtained for both the Kendall's tau b and Spearman's rank correlation tests are not significant in any of the ten years, nor for the ten years as a whole. Hypothesis 9 is, therefore, not supported from 1988-1997. In effect, from 1988-1997, factors other than size may explain observance of IASC standards by companies in Ghana.

14.5.3 LISTING STATUS AND OBSERVANCE OF IASC STANDARDS

The average conformity index for all the companies studied before listing (1988-1989) on the GSE was 85.0% which was lower than the index after listing (1996-1997) of 90.2%. There was, therefore, an increase of 5.2% in the average conformity index of all the companies taken together from the period before listing to the period after listing.

Results of the Sign test used to test the existence of a significant positive association between listing status and observance of IASC standards in Ghana are significant at the 5% level of significance (p= 0.035) thereby affirming Hypothesis 10. It is concluded that the observance of IASC standards in Ghana from 1988-1997 was positively associated with listing status. In effect, the degree of observance of IASC standards in Ghana after companies had listed was higher than before listing on the GSE.

14.5.4 ACCOUNTING REGULATION AND OBSERVANCE OF IASC STANDARDS

As reported in Table 14.4, higher conformity indexes were recorded after the introduction of new accounting regulations than in the period before. Indeed, conformity indexes increased with successive introduction of accounting regulation. The period with the highest level of regulation, 1995-1997, recorded the highest conformity index of 90.3%.

Table 14.4: Accounting Regulation and Observance of IASC standards - Conformity Indexes in Ghana, 1988-1997

Period	Applicable regulation	Conformity index (%)	Rank
1988-1990	Ghana Companies Code	85.4	4
1991-1993	Ghana Companies Code and GSE Listing Regulations	87.5	3
1995-1997	Ghana Companies Code, GSE Listing Regulations, and GNASBSs	90.3	1
1991-1997	Ghana Companies Code, GSE Listing Regulations, and GNASBSs[1]	89.1	2

[1] GNASBSs were not applicable in 1991-1994

Table 14.5: Accounting Regulation and Observance of IASC Standards in Ghana: 1988-1997- Sign Test of Significance

Accounting Regulation Periods	two-tailed Probability
1988-1990 versus 1991-1993	0.035
1988-1990 versus 1995-1997	0.007
1988-1990 versus 1991-1997	0.007

At the 5% level of significance, results of the Sign test reported in Table 14.5 indicate that a significant positive association existed between accounting regulation and observance of IASC standards in the periods

1991-1993, 1995-1997 and 1991-1997. Hypothesis 11 is therefore affirmed. These results suggest that the period of high accounting regulation witnessed a significantly higher level of observance of IASC standards than the period of low accounting regulation in Ghana. In effect, the introduction of accounting regulation had a significant positive impact on the observance of IASC standards in Ghana from 1988-1997.

14.6 SUMMARY OF RESULTS AND DISCUSSION

All corporate executives, auditors, regulators of financial reporting and financial analysts who were interviewed indicated that IASC standards are an influential factor in the Ghana capital market. The respondents cautioned, however, that IASC standards should be creatively adopted to reflect the peculiar circumstances of Ghana.

The respondents felt that the globalisation of businesses and capital markets, which are relevant to Ghana, make credible and comparable financial reports imperative. They argued that quality financial reports, which meet the tests of adequacy and comparability, can be obtained through the observance of IASC standards.

The view held by the respondents to the effect that IASC standards are a necessary tool in the Ghana capital market is congruous with the position espoused in the literature that IASC standards have useful application in ECMs [Samuels and Oliga, 1982; Wallace, 1990b, 1993; Nzdingbe, 1990; Larson, 1993; Samuels, 1993; Peasnell, 1993; Saudagaran and Diga, 1997b] and the findings of Chamisa [1994] in Zimbabwe and Botswana.

It was found that the ICAG was promoting IASC standards in Ghana. It had adopted twenty-eight of the thirty IASC standards which existed on 31 December 1997. Since then, additional nine accounting standards have been issued by the IASC which the ICAG has to endeavour to adopt in the future. Moreover, professional accounting firms in Ghana covered in this study largely used IASC standards as the basis of their quality control in the delivery of accountancy and auditing services to their clients.

The adoption of IASC standards as the basis for the formulation of local accounting standards in Ghana is consistent with the situation in the following ECMs: Indonesia, Malaysia, Pakistan, Zimbabwe, Bangladesh, China, Colombia, India, Mexico, Nigeria, Peru, Philippines, Poland, Sri Lanka, Taiwan, Thailand, Uruguay, Botswana, Malawi and Lesotho [Ndzingbe, 1990; Chamisa, 1994; Saudagaran and Diga, 1997b].

The role of the ICAG and the key professional accounting firms in Ghana in promoting the observance of IASC standards in the country is not only positive but also in accord with the pledge, as members of IFAC, to use their best endeavours do so. Like in the ECMs mentioned above, the adoption of IASC standards in Ghana is in line with the widely held view [Wallace, 1990; Peasnell, 1993; Saudagaran and Diga, 1997b], and which Gokarn [1984] provides evidence, that countries which lack financial and technical resources would find IASC standards as a necessary and useful route to formulating local accounting standards.

There was evidently a strong influence of auditors who used IASC standards as the basis of their audit programmes or checklists, at least for the companies studied. Apart from encouraging the client companies to apply IASC standards, they also checked compliance of financial reports with audits programmes which were based on IASC standards. The auditors indicated that they used the same checklist incorporating IASC standards in their audits even before the companies studied listed on the GSE. This finding confirms the view that professional accounting firms are vehicles for promoting IASC standards.

The observance of IASC standards in Ghana increased from 84.9% in 1988 to 90.2% in 1997 with an average of 88.0% for the ten years studied. The observance rate in Ghana compared favourably with rates obtained in other countries by Purvis, Gernon and Diamond [1991]. In an international survey, Purvis et al. [1991] recorded observance rates which ranged between <50% and >90% with an overall average of 76.3%. Thus, the overall average observance of IASC standards in Ghana was higher than what Purvis et al. [1991] found and indeed exceeded the rate recorded for Ghana of 64% in that study.

The rate of observance of IASC standards in Ghana increased over time as was also observed in Botswana and Zimbabwe by Chamisa [1994]. However, the observance of IASC standards was higher in Ghana than in Botswana and Zimbabwe. In Zimbabwe, observance increased from 30% in 1975 to 57% in 1990 while in Botswana it increased from 12% to 42% over the same period. The Al-Basteki [1995] study of Jordan did not examine the extent of observance of IASC standards in annual report so a direct comparison cannot be made.

The high rate of observance of IASC standards in Ghana can be traced to a number of factors. Many of the items required to be disclosed by IASC standards were mandatory in Ghana. Hence, compliance with the mandatory requirements in Ghana which companies largely did fulfil, meant a high level *ipso facto* of observance of IASC standards. Companies perceived IASC standards to offer credibility to financial reports as gathered from the interviews with corporate executives. The internationalisation of the GSE also require that financial reports of companies are not only credible but comparable and comprehensible internationally. As confirmed during the interviews, companies used IASC standards as the basis for their financial statements in order to meet the expectations of international investors in the GSE. It may be argued that the high observance of IASC standards in Ghana is likely to facilitate the integration of its capital market into the international capital market.

Corporate size was not found to be a significant influence on the observance of IASC standards in Ghana. This finding cannot be directly compared with earlier empirical studies by Chamisa [1994] in Zimbabwe and Botswana and Al-Basteki [1995] in Jordan. The Chamisa [1994] study did not examine the impact of corporate size on the observance of IASC. Although Al-Basteki [1995] found a significant positive association between size and observance of IASC standards, his analysis and conclusions were based on the mere disclosure in annual reports that such standards were used rather than on the actual extent of observance as done in this study.

The introduction of accounting regulation appeared to have had a significant positive impact on the observance of IASC standards in Ghana. Earlier empirical studies did not examine the impact of the introduction of accounting regulation on observance of IASC standards as in this study so a comparison cannot be made. The significant influence of accounting regulation and observance of IASC standards is not surprising given that GNASBSs which were introduced in 1994 were largely a mere adoption of IASC standards. The GAAPs of the developed countries which were used by some of the companies studied were also similar to IASC standards. This implied that compliance with GNASBSs or GAAPs of the advanced countries amounted to observance of IASC standards. This finding may suggest that IASC standards may gain acceptance if they are adopted and enforced by professional institutes in various countries.

Listing status was found to be significantly positively associated with observance of IASC standards in Ghana. The Chamisa [1990] and Al-Basteki [1995] studies did not examine the impact of listing status. Purvis et al. [1991], however, found a significant positive association between the level of capital market development and observance of IASC standards which is consistent with the finding of this study.

The significant influence of listing status on the observance of IASC standards indicates that listed companies in Ghana aspire to measure up to international standards of accounting and reporting in order to satisfy international investors, who are major players in the GSE. This view was confirmed by corporate executives and auditors who were interviewed. The application of IASC standards was perceived by companies, auditors and financial analysts to be one of the cornerstones of investor protection in the Ghana capital market, the development and continuance of which practice may facilitate the attraction and retention of foreign capital into Ghana. The results suggest further that the GSE will be one of the moving forces for the observance of IASC standards in Ghana and confirms a widely held view that capital markets exert pressure for observance of IASC standards. This finding should suggest to the IASC that it must strive to secure the acceptance of its standards by the IOSCO not only for international offerings but also for use in all domestic capital markets.

14.7 CONCLUSION

This chapter has considered issues pertaining to IASC standards in Ghana. The opinions of users and producers of information on the usefulness of IASC standards in the context of the Ghana capital market was sought. The adoption, promotion and the extent of observance of IASC standards and factors influencing it in Ghana from 1988-1997 have been evaluated. It is concluded that the professional accounting institute, the ICAG, and professional accounting firms in Ghana are arguably effective vehicles for promoting the observance of IASC standards. The introduction of accounting regulation incorporating IASC standards appears to be a mechanism through which the promotion of observance of IASC standards can be achieved. Moreover, the usefulness of IASC standards in the context of the Ghana capital market is not in doubt and that the GSE promises to be a motivating factor for the adoption of IASC standards in Ghana.

As was the case with corporate disclosure reported in Chapter XIV, the limitations of the scope of the data have not permitted analysis of the strength of each of the three factors investigated nor the possible multicollinearlity effects which might have existed among them. The next chapter is devoted to a summary of the results and key findings and limitations of this thesis as well as identification of areas for future research.

CHAPTER XV

SUMMARY AND CONCLUSIONS

15.1 INTRODUCTION

This study has investigated financial reporting in an emerging capital market context using Ghana as a case study. It has involved a review of literature and collection and analysis of data including the testing of hypotheses. The literature review, procedures used to collect and analyse data and the findings have been presented in chapters II to XIV. This concluding chapter is devoted to a summary of the research questions and objectives, hypotheses tested, methods used to collect and analyse the data, results and findings including limitations and areas to which future research may be directed. Section 15.2 of this chapter reviews the research questions, objectives and hypotheses of the study. The procedures used to collect and analyse the data and their limitations are detailed in section 15.3. A summary of the results and findings is presented in section 15.4. The limitations of the study and findings and areas identified for future research are covered in section 15.5 and section 15.6 respectively. An overall conclusion is offered in section 15.7.

15.2 RESEARCH QUESTIONS, OBJECTIVES AND HYPOTHESES

The main purpose of this study was to evaluate the quality of financial reporting and factors influencing it in Ghana in the context of the GSE and the development of international capital markets. The specific questions investigated were:

(1) What is the degree of comparability of accounting measurement methods in Ghana?

(2) What factors influence the degree of comparability of accounting measurement methods in Ghana?

(3) What is the extent of corporate disclosure in annual reports in Ghana?

(4) What factors influence the extent of corporate disclosure in annual reports in Ghana?

(5) How influential are IASC standards in the Ghana capital market?

(6) What is the extent of observance of IASC standards in Ghana?

(7) What factors influence the observance of IASC standards in annual reports in Ghana?

In the light of the research questions, the objectives of this study were:

(i) To survey corporate accounting measurement and disclosure regulations in Ghana.

(ii) To ascertain the extent of compliance with accounting measurement and disclosure regulations in Ghana.

(iii) To identify accounting measurement methods and the frequency of use of these methods by companies in Ghana.

(iv) To measure the degree of comparability of the accounting measurement methods among companies in Ghana.

(v) To evaluate the impact of the introduction of accounting regulation and the development of the capital market on the frequency of use and comparability of accounting measurement methods in Ghana.

(vi) To measure the extent of corporate disclosure in annual reports in Ghana.

(vii) To evaluate the impact of firm size, listing status and accounting regulation on the extent of disclosure in annual reports in Ghana.

(viii) To seek opinions of users and producers of annual reports and regulators of financial reporting on the relevance of IASC standards in the Ghana Stock Exchange.

(ix) To ascertain the extent to which professional accountants have promoted the observance of IASC standards in Ghana.

(x) To measure the extent of observance of IASC standards by companies in Ghana.

(xi) To evaluate the impact of firm size, listing status and accounting regulation on the extent of observance of IASC standards in annual reports in Ghana.

The accounting and disclosure regulations and practices of the companies in Ghana for a period of ten years, from 1988-1997, were studied. Studying the ten years made possible an historical analysis of the evolution of financial reporting regulations and practices in Ghana. This provided insights into the forces which had shaped financial reporting in Ghana over the ten year period. The introduction of accounting regulations which was staggered during the period studied made it possible to study the impact of accounting regulation on financial reporting in Ghana over time. Similarly, the establishment of the GSE was an event which also afforded an opportunity to analyse the impact of the development of a capital market on financial reporting. The financial information medium focused on in this study was the annual report of listed companies. Executives and auditors of the listed companies, financial analysts and regulators of financial reporting were also interviewed.

Eleven hypotheses were developed and tested. These were:

Hypothesis 1

There are no significant differences in the accounting measurement methods used by companies in Ghana during the period of low accounting regulation compared to the period of high accounting regulation.

Hypothesis 2

There are no significant differences in the accounting measurement methods used by companies in Ghana during the period before listing compared to the period after listing on the Ghana Stock Exchange.

Hypothesis 3

There are no changes in the comparability of accounting measurement methods used by companies in Ghana from the period of low accounting regulation to the period of high accounting regulation.

Hypothesis 4

There are no changes in the comparability of accounting measurement methods used by companies in Ghana from the period before listing to the period after listing on the Ghana Stock Exchange.

Hypothesis 5

Size is positively associated with corporate disclosure in annual reports in Ghana.

Hypothesis 6

Listing status is positively associated with corporate disclosure in annual reports in Ghana.

Hypothesis 7

Accounting regulation is positively associated with corporate disclosure in annual reports in Ghana.

Hypothesis 8

IASC standards are an influential factor in the Ghana capital market.

Hypothesis 9

Size is positively associated with the observance of IASC standards in annual reports in Ghana.

Hypothesis 10

Listing status is positively associated with the observance of IASC standards in annual reports in Ghana.

Hypothesis 11

Accounting regulation is positively associated with the observance of IASC standards in annual reports in Ghana.

15.3 DATA COLLECTION AND ANALYSIS PROCEDURES

Achieving the objectives of this study involved a number of steps. These were a review of literature, design of procedures for the collection of field data and analysis of the data which are outlined in this section.

15.3.1 LITERATURE REVIEW

The literature review covered the political and economic environment of Ghana and theoretical and prior empirical studies into the issues investigated. The background information on Ghana provided the context within which data were collected and analysed. Review of prior empirical research helped to indicate suitable strategies and methods for the collection and analysis of the data. The entire literature review provided the basis for the research questions and the development of the hypotheses tested.

15.3.2 SAMPLES AND RESPONSE

The annual reports covering ten years, 1988-1997, of fifteen non-financial companies were analysed. The companies studied represented 71.4% of all companies and 93.8% of non-financial companies listed on the GSE on 31 December 1997. Six of the companies listed on the GSE on 31 December 1997 were excluded from the study. These six companies comprised one non-financial company, the Ashanti Goldfields Corporation, and five financial institutions. The Ashanti Goldfields Corporation was excluded because it was substantially different from the rest of the listed companies. In addition to being very large, accounting for 84% of the capitalization of the GSE, it was the only multinational and internationally listed company among the listed companies in Ghana. The non-financial companies were excluded in view of the fact that they were subject to additional reporting requirements during the period studied. All these measures were taken to ensure that a homogeneous sample was studied and also to avoid the influence of outliers on the analysis of the data collected.

Thirteen corporate executives, ten financial analysts, five external auditors and four regulators of financial reporting in Ghana were also interviewed. All the targeted interviewees responded, except two corporate executives and two financial analysts, giving a response rate of 94.2%. The interviewees were senior managers who were likely to influence financial reporting policy decisions in their organizations.

15.3.3 ACCOUNTING MEASUREMENT METHODS AND DISCLOSURE CHECKLISTS

Checklists of accounting measurement methods and disclosure items were developed against which actual practices of companies were evaluated. These checklists were compiled after reviewing prior research, accounting regulations in Ghana and IASC standards. The relevant accounting regulations in Ghana from which checklists were compiled were the Ghana Companies Code 1963 Act 179, the Ghana Stock Exchange Listing Regulation 1990, L.I. 1509 and GNASBSs.

The accounting measurement methods checklist comprised fifteen items. These were: valuation of stock-in-trade, assignment of cost to stock-in-trade, valuation of property, valuation of plant and machinery, valuation of equipment, depreciation of property, depreciation of plant and machinery, depreciation of equipment, translation of foreign currency transactions, translation of balances held in foreign currency, treatment of translation differences, valuation of trade investments, valuation of investment properties, deferred taxation arising from gains on revaluation of tangible fixed assets and deferred taxation arising from different capital allowances and depreciation rates. Accounting measurement items such as accounting for associated companies, research and development costs, consolidation, accounting for associates, goodwill, government grants etc. which lacked relevance or significance to the sample companies were excluded from the study.

The disclosure checklist consisted of 156 information items. These 156 items comprised mandatory and voluntary items in Ghana and items required by IASC standards. The disclosure items were also categorised into eight groups, namely, general company information, accounting policies, financial review, cash flow information, value added information and non-financial and social information, profitability information and state of affairs information.

15.3.4 INTERVIEW QUESTIONS

A schedule of interview questions, which varied according to the category of respondents, was used. Issues on which the questions were asked were: accounting measurement method; compliance with financial reporting regulations; disclosure of forecasts; inflation adjusted information; value added; strategies and environmental information; and relevance, promotion and observance of IASC standards.

15.3.5 SCORING OF ANNUAL REPORTS

The content analysis technique was used to ascertain from the annual reports of the companies studied the accounting measurement methods used and the information items disclosed. A declared measurement or valuation method was scored 'yes'. If no method was disclosed for an item, it was scored 'nd' and where an item was not applicable, it was scored 'na'.

A dichotomous procedure was followed in scoring the disclosure items. The approach ensured, however, that a company was not penalised if an item did not apply to it. An item was given a score of "1" if disclosed and "0" if applicable to a company but not disclosed. Where an item was not applicable to a company it was scored "na". As recommended by Cooke [1989b], and followed by other researchers, the entire annual report of each company was read to confirm non-disclosure or non-applicability of a accounting measurement method or item of disclosure. Separate score sheets for the evaluation of the accounting measurement methods used and the disclosure of items of information were developed for each company for each year studied.

15.3.6 EVALUATION OF COMPARABILITY OF ACCOUNTING MEASUREMENT METHODS

Comparability of accounting measurement methods was evaluated in terms of their consistency and popularity or concentration. Where necessary, consistency was tested using the Chi-Square test. The H index developed by van der Tas [1988] was used to assess the concentration of methods on an item-by-item basis.

15.3.7 EVALUATION OF EXTENT OF DISCLOSURE AND OBSERVANCE OF IASC STANDARDS

The extent of disclosure was measured by means of an unweighted disclosure index. The index of disclosure was derived separately for overall, mandatory and voluntary information and categories of information. The disclosure index was computed in such a way that a company was not penalised if an item did not apply to it. Index scores for individual companies, groups of companies and the sample companies as a whole were computed for each year studied and, as relevant, for periods of time. A conformity index, which was derived in the same way as the disclosure index, was used as a measure of the observance of IASC standards.

15.3.8 TESTING OF HYPOTHESES

A number of Nonparametric statistical techniques were used to test the thirteen hypotheses which were investigated. These nonparametric statistical techniques were: Chi-Square test, Spearman's rank correlation test, Kendall's tau b test and Sign test. Nonparametric statistical techniques were used because the sample sizes were small, i.e. less than 30, which did not permit the application of parametric statistical techniques.

15.4 SUMMARY OF RESULTS AND FINDINGS

15.4.1 SOURCES OF FINANCIALREPORTING REGULATIONS IN GHANA

The Ghana Companies Code, GSE listing regulations, GNASBSs, income tax laws, legislative instruments of state-owned enterprises, the Banking Law 1989, PNDCL. 225, and the Insurance Law, PNDCL. 227 were the sources of financial reporting regulations in Ghana from 1988-1997. The Banking Law and the Insurance Law applied to financial institutions only. State-owned enterprises derived their financial reporting regulations from the laws which established them. The companies which were surveyed, being from non-financial sectors, were subject to the Ghana Companies Code, GSE listing regulations and GNASBSs.

The Ghana Companies Code 1963, Act 179, the Ghana Stock Exchange Listing Regulations 1990, L. I. 1509 and GNASBSs were introduced in 1963, 1990 and 1994 respectively. The GSE listing regulations and GNASBSs increased the level of financial reporting regulation in Ghana by adding, from 1991 onwards, to the requirements of the Ghana Companies Code. Financial reporting regulations in Ghana were noted to have been influenced by colonialisation, professional development locally and internationally, and capital market development. The colonial influence was seen in the enactment of the Ghana Companies Code which was modelled on the British Companies Act at the time. GNASBSs were fashioned along the lines of IASC standards, the ICAG having adopted the latter. The establishment of the GSE gave birth to the GSE listing regulations.

15.4.2 COMPONENTS OF ANNUAL REPORTS IN GHANA

Corporate annual reports in Ghana comprised profit and loss account, balance sheet, cash flow, accounting policies, notes to the accounts, directors' reports, auditor's report, value added statement, the chairman's statement, notice of meeting, company background information, financial highlights, statement of directors' responsibilities, summary of trend data and miscellaneous disclosures. Variations and similarities in these reports were observed among companies.

15.4.3 COMPARABILITY OF ACCOUNTING MEASUREMENT METHODS IN GHANA

Accounting measurement methods were mainly defined in the accounting policy statements of annual reports. In a few instances, however, these methods were ascertained from the notes. Some companies did not disclose explicitly all the relevant accounting policies that they had used. In some cases, the disclosures of accounting policies made in the reports were not sufficiently comprehensive to describe the methods applied. In view of these limitations in the disclosure of accounting policies, the methods of accounting used by some companies for some of the items investigated could not be established from reading the annual reports.

Over the ten years studied, 1988-1997, a uniformity of accounting measurement methods was observed on seven out of the fifteen items investigated. These seven items were: stock-in-trade, valuation of trade investments, valuation of investment properties, translation of foreign currency transactions, translation of foreign currency balances, treatment of translation differences and deferred taxation arising from capital gains due to revaluation of fixed assets. Stock-in-trade was valued at the lower of cost or market value, trade investment at cost and investment properties at their market value. The spot rate was used to translate foreign currency transactions, while balances held in foreign currencies were translated at the closing rate. Translation differences were treated as part of income for the period. Where foreign currency loans had been used to finance fixed assets, translation differences were added to the cost of assets i.e. capitalised. Companies did not provide for deferred taxation which arose from revaluation of fixed assets because they did not intend to dispose of their assets.

Diversity of accounting measurement methods was observed for the remaining eight items which were: valuation of property, valuation of plant and machinery, valuation of equipment, depreciation of property, depreciation of plant and machinery, depreciation of equipment, methods used to assign cost to stock-in-trade and deferred taxation arising from different capital allowances and depreciation rates. Two methods were used to value property, plant and machinery and equipment which were market value and historical cost. A majority of companies used market value to value property and plant and machinery. However, the historical cost basis was used by a majority of companies to value equipment. Property, plant and machinery and equipment were depreciated using two methods, namely, straight line and reducing balance. A majority of companies used the straight line method to depreciate property and plant and machinery. There was no clear majority, however, in the choice of depreciation method for equipment. The methods used to assign cost to stock-in-trade were FIFO and WAC which appeared to have an almost equal emphasis. Four methods of accounting for deferred taxation arising from differences in capital allowances and depreciation rates were identified. These were 'no provision', 'partial provision liability method', 'full provision liability method' and 'full provision without disclosure of the method used to compute the deferred tax'. A majority of companies made provision for deferred taxation but did not indicate the method used to compute the deferred tax liability.

The introduction of new accounting regulation, in the form of GNASBSs, did not alter significantly the choice of accounting methods used by listed companies as the results of the Chi-Square tests revealed thereby affirming Hypothesis 1. This was so because prior to GNASBSs, companies were largely using the methods laid out or accepted under the Ghana Companies Code, and in large measure, these practices and methods were endorsed and not revoked by the new regulations. The Chi-Square tests also confirmed that a GSE listing did not lead to any significant alterations in the methods of accounting used by the sample companies which confirmed Hypothesis 2. This finding was consistent with what Emenyonu (1993) found in the developed capital markets.

A partial support for Hypothesis 3 and Hypothesis 4 was found since changes in the comparability of some items of information occurred. However, the changes in comparability over the period were not attributable to the introduction of new accounting regulations nor GSE listing status of the companies studied. Corporate executives who were interviewed indicated that it was the desire to present accounts to reflect the circumstances of their companies which dictated the choice of accounting methods. This view underlay the choice of methods used by companies for the valuation of tangible fixed assets at market values which was influenced by external factors such as high inflation and the continuing steep devaluation of Ghana's currency, the Cedi.

15.4.4 NON-COMPLIANCE WITH FINANCIAL REPORTING REGULATIONS IN GHANA

The measurement and valuation methods used by the companies studied from 1988-1997, were all consistent with accounting regulation in Ghana. However, none of the companies studied complied fully with the disclosure of information items over the same period. The non-compliance with disclosure requirements in Ghana is consistent with findings in India, Nigeria, Mexico, Taiwan, Singapore, Malaysia, Kuwait, Hong Kong, Bangladesh and Japan [Singhvi, 1967; Wallace, 1987, 1988a; Chow and Wong-Boren, 1987; Tay, 1989; Cooke, 1991; Al-Hajeri, 1992; Tai et al., 1994; Nicholls and Ahmed, 1995; Hossain et al., 1995]. The lack of compliance with accounting regulations in Ghana was traced to weak monitoring and enforcement by the relevant authorities, namely, the RGD, the GSE and the ICAG, absence of stiff penalties for non-compliance and an underdeveloped financial press. The findings suggest the need to strengthen the regulatory agencies in Ghana.

15.4.5 EXTENT OF DISCLOSURE IN ANNUAL REPORTS IN GHANA

Disclosures of forecasts, value added information, objectives and strategies and environmental information were low during the period studied while no company disclosed inflation-adjusted information. This finding is similar to trends in other countries [Buzby, 1974, Firth 1979a; Firer and Meth, 1986; Wallace, 1987; Meek and Gray, 1989; Nicholls and Ahmed, 1995]. In a large measure, disclosure of information items required by the Ghana Stock

Exchange Listing Regulations 1990, L. I. 1509, where not required by the Ghana Companies Code and GNABSSs were also low.

Overall disclosure and voluntary disclosure increased over the ten years studied. From 63.7% in 1988, overall disclosure increased to 73.3% in 1997 with an average of 67.5% for the ten year period. Voluntary disclosure also increased from 15.7% in 1988 to 30.4% in 1997 with a ten year average of 22.0%. Mandatory disclosure, however, declined over the period from 92.2% in 1988 to 87.9% in 1997 with the average for the ten years being 89.2%. The decline in mandatory disclosure was due to the failure of the companies studied to comply fully and promptly with the additional requirements introduced under the GSE listing regulations and GNASBSs in 1990 and 1994 respectively. These results suggest that companies took some time to adjust and comply with the new sets of regulations which were introduced in Ghana.

With the exception of state of affairs information where disclosure decreased, all other categories showed increased disclosure from 1988 to 1997. Based on the average disclosure for the ten years, the categories of information were judgementally classified into two main groups, namely, high and low. The high disclosure categories were those which recorded index scores of above 70% while the low disclosure categories recorded scores of less than 70% for the year period, 1988-1997. The high disclosure categories were, in descending order, cash flow (94.0%), profitability (78.4%), state of affairs (78.0%), company background information (76.5%) and accounting policies (73.0%). Financial review (23.5%), value added (22.0%) and non-financial or social information (17.6%) were judged to be low disclosure categories. The high disclosure categories were those for which the items of information in the categories included substantial mandatory requirements. The items of information constituting the low disclosure categories were, however, all voluntary.

15.4.6 IMPACT OF FIRM SIZE ON DISCLOSURE IN ANNUAL REPORTS IN GHANA

The Spearman's rank correlation test and the Kendall's tau b test were used to evaluate the existence of a significant positive association between corporate size and disclosure of information in annual reports at the 5% level of significance. The results established that a significant positive association between corporate size and overall disclosure existed in every year and also the ten year period thereby affirming Hypothesis 5. The impact of size on mandatory disclosure was not significant in any single year nor for the ten year period. Hypothesis 5 was therefore not affirmed for mandatory disclosure.

The Kendall's tau b and the Spearman's rank correlation tests revealed that size had significantly impacted on voluntary disclosure in eight and nine of the ten years studied respectively, indicating a partial support for Hypothesis 5 from 1988- 1997. Both tests revealed that size did not have a significant impact on disclosure in 1990 but the Kendall's tau b test revealed a further lack of significant influence of the size factor in 1988.

Regarding categories of information, a significant positive association between size and each of five categories was observed. The five categories of information for which Hypothesis 5 was affirmed were: financial review, value added, non-financial and social, profitability and state of affairs. For the remaining three categories of information, however, Hypothesis 5 was not supported. These three categories were: company background information, accounting policies and cash flow.

The positive associations between size and overall disclosure and voluntary disclosure in Ghana are consistent with findings in India, USA, UK, continental Europe, Sweden, Japan, New Zealand, Mexico, Malaysia, Switzerland, Spain, Saudi Arabia and Canada [Cerf, 1961; Singhvi, 1967; Singhvi and Desai, 1971; Buzby, 1975; Cowen et al., 1987; Firth, 1979b; Meek et al., 1995; Cooke, 1989a, 1989b 1991, 1992, 1996; McNally et al., 1982; Hossain et al., 1994, 1995; Chow and Wong-Boren, 1987; Raffournier, 1995; Wallace et al., 1994; Al-Modahki, 1995; Neu et al., 1998]. The findings are, however, inconsistent with observations in Jordan and Nigeria [Wallace, 1987; Solas, 1994]. Agency theory explains the significant positive impact of corporate size on overall disclosure and voluntary disclosure in Ghana.

The lack of a significant positive association between mandatory disclosure and size found in Ghana was consistent with findings in Bangladesh [Ahmed and Nicholls, 1994]. The influence of auditors who applied similar standards to all companies irrespective of their size could have accounted for the lack of impact of corporate size on mandatory disclosure in Ghana from 1988-1997.

15.4.7 IMPACT OF LISTING STATUS ON DISCLOSURE IN ANNUAL REPORTS IN GHANA

Overall disclosure and voluntary disclosure increased while mandatory disclosure decreased in the post-listing period (1988-1989) compared to the pre-listing period (1996-1997). Overall disclosure increased from 64.0% in the pre-listing period to 71.7% in the post-listing period representing an increase of 6.7%. Voluntary disclosure increased by 14.0% from 16.2% in the pre-listing period to 30.2% in the post-listing period. Mandatory disclosure, however, declined by 4.4% from 92.3% in the pre-listing period to 87.9% in the post-listing period. With the exception of state of affairs information which decreased by 1.8%, the disclosure of the other seven categories of information increased in the post-listing period from the levels recorded in the pre-listing period. The increases were as follows: financial review 20.6%, value added 16.1%, cash flow 13.3%, non-financial and social 8.9%, accounting policies 8.3%, profitability 5.0% and company background information 3.7%.

The Sign test was used to evaluate the significance of the positive association between disclosure and listing status in Ghana at the 5% level of significance. Significant positive associations were found between listing status and overall disclosure (P=0.007), listing status and voluntary disclosure (P=0.007) and listing status and each of three categories of information, namely, company background information (P=0.008), financial review (P=0.001) and profitability (P=0.035), thus affirming Hypothesis 6. Hypothesis 6 was not supported for four categories of information which were: value added (P=0.375), non-financial and social (P=0.227), accounting policies (P=0.065) and cash flow (P=0.500). The relationships between listing status and mandatory disclosure and listing status and state of affairs information were negative and therefore did not lend support to Hypothesis 6. The decrease in mandatory disclosure was significant overall (P=0.001) but not significant for state of affairs information (P=1.000).

The significant positive associations between listing status and overall disclosure and voluntary disclosure in Ghana are consistent with findings in India, USA, UK, Continental Europe, Sweden, Japan and Spain [Singhvi, 1967; Singhvi and Desai, 1971; Firth, 1979b; Meek et al., 1995; Cooke, 1989a, 1989b, 1991, 1992, 1996; Wallace et al., 1994]. The findings also reveal that on entry into the capital market, the companies in Ghana increased disclosure as was found by Choi [1973] in the Euro-market. The findings suggest that the capital market exerted pressures on companies to disclose certain types of information in Ghana. This was particularly true of financial review information which might have been used by directors to explain year-end results to a wider group of shareholders and potential new investors.

15.4.8 IMPACT OF ACCOUNTING REGULATION ON DISCLOSURE IN ANNUAL REPORTS IN GHANA

The impact of accounting regulation on disclosure was assessed for overall and mandatory information and five categories of information, namely company background, accounting policies, profitability, state of affairs and cash flow. Overall disclosure increased from 1991-1997, following the introduction of GSE listing regulations in 1990 and GNASBSs in 1994. Mandatory disclosure, however, declined during the period of high regulation, 1991-1997, compared to the period of low regulation, 1988-1990. With the exception of state of affairs information which decreased, the disclosure of the other four categories of information increased during the period of high regulation compared to the period of low regulation.

The Sign test was used to test the existence of significant positive associations between accounting regulation and overall disclosure and mandatory disclosure at the 5% level of significance. The results revealed a significant positive association between accounting regulation and overall disclosure thereby affirming Hypothesis 7. The decline in mandatory disclosure following the introduction of accounting regulation indicated a negative association which was significant indicating lack of support for Hypothesis 7. Significant increases in disclosure of three of the five categories of information were observed. Hypothesis 7 was therefore affirmed for each of the three categories which were: company background information (*P*=0.008), accounting policies (*P*=0.012) and profitability (*P*=0.035). Hypothesis 7 was, however, not supported with respect to state of affairs information which decreased, though not significantly (*P*=1.000), and cash flow information (*P*=0.500).

The decline in compliance with mandatory disclosure in Ghana following the introduction of accounting regulation might have been due to the fact that companies took some time to assess the costs and benefits of new regulatory requirements before complying. The lack of positive impact of accounting regulation on cash flow information was because before being made mandatory, a large majority of companies were already disclosing the said information as a result of international influences such as IASC standards, and the GAAPs of the UK, USA and France and MNCs.

15.4.9 RELEVANCE OF IASC STANDARDS IN THE GHANA STOCK EXCHANGE

Corporate executives, financial analysts and auditors interviewed perceived IASC standards to be an influential factor in the Ghana capital market thereby affirming Hypothesis 8. In general, the endorsement of IASC standards by the respondents was premised on the globalisation of capital markets and businesses, which necessitates comparable and reliable financial reports across countries. In this regard, the respondents saw IASC standards as indexes of good practice. This finding is consistent with findings in Botswana and Zimbabwe [Chamisa, 1994] and confirms the view held by writers such as Wallace [1990], Peasnell [1993] and Saudagaran and Diga [1997b] that IASC standards are useful to capital markets in developing countries.

15.4.10 PROMOTION OF THE OBSERVANCE OF IASC STANDARDS IN GHANA

It was established that professional accounting and auditing firms had been promoting the observance of IASC standards in Ghana. These firms had incorporated IASC standards in their audit programmes which were used for the audit of clients' financial reports. In doing so, the auditors encouraged companies to comply with IASC standards. This finding which points to the fact that professional accounting firms are vehicles for the promotion of IASC standards.

The ICAG adopted IASC standards as the basis for the formulation of standards in Ghana in 1994. In the same year, twenty-eight accounting standards were issued by the ICAG which were replications of the then existing IASC accounting standards except in two instances. These two instances were GNASBS 8, Inventories, and GNASBS 21, Capitalisation of Borrowing Costs. Unlike 1AS 2, GNASBS 8 does not permit the LIFO method in assigning cost to inventories. GNASBs 21 followed US requirements instead of the IASC standard on the subject, IAS 23. Although the IASC had formulated additional accounting standards since 1994, the ICAG had not, as late as early 1999 when this thesis was being finalised, added to the twenty-eight accounting standards issued in 1994.

Further support of the IASC was given by the ICAG through the organisation of seminars and publication of IASC standards for the benefit of its members. Generally, it was found that the ICAG had made efforts to promote IASC standards in Ghana since 1994.

15.4.11 OBSERVANCE OF IASC STANDARDS AND OTHER GAAPs IN GHANA

A majority (84.6%) of the companies whose executives were interviewed indicated that they observed IASC standards. A minority (15.4%) did not use IASC standards. The companies which did not use IASC standards were subsidiaries of UK multinationals which applied UK GAAP only. The GAAPs of the industrially advanced countries, namely, the UK, USA and France, were also used by the companies which observed IASC standards. The country of origin of companies and the professional training of key accounting personnel were discernible factors in the application of the GAAPs of the three industrially advanced countries. The subsidiaries of the US and French multinational companies in the sample used US and French GAAPs respectively. UK GAAP was used by subsidiaries of the UK multinationals and two Ghanaian companies whose accountants had trained in the UK.

15.4.12 EXTENT OF OBSERVANCE OF IASC STANDARDS IN ANNUAL REPORTS IN GHANA

The observance of IASC standards by the companies studied in Ghana increased over the ten years studied. From 84.9% in 1988, observance of IASC standards increased to 90.2% in 1997 with an average of 88.0% for the ten year period. The extent of observance of IASC standards was higher than the levels found in Botswana and Zimbabwe by Chamisa [1994].

15.4.13 IMPACT OF FIRM SIZE ON OBSERVANCE OF IASC STANDARDS IN ANNUAL REPORTS IN GHANA

The existence of a significant positive association between corporate size and the observance of IASC standards in Ghana was tested at the 5% level of significance using the Spearman's rank correlation test and the Kendall's tau b test. The results of both tests revealed that the coefficients of correlation were not significant in any of the years studied nor the ten years as a whole. Hypothesis 9 was therefore not supported in Ghana from 1988-1997.

15.4.14 IMPACT OF LISTING STATUS ON OBSERVANCE OF IASC STANDARDS IN ANNUAL REPORTS IN GHANA

The observance of IASC standards by the companies studied also increased with GSE listing. The observance rate was 85.0% before listing (1988-1989) compared to 90.2% after listing (1996-1997) representing an increase of 4.8%. The Sign test was used to examine the existence of a significant positive association between listing status and the observance of IASC standards in Ghana at the 5% level of significance. The results revealed that the positive association between listing status and the observance of IASC standards in Ghana was significant (p= 0.035) thereby confirming Hypothesis 10. The results suggest that a GSE listing was a motivation for increased observance of IASC standards in Ghana.

It was also confirmed through interviewing corporate executives and auditors that IASC standards were used to ensure that financial reports of the companies met international standards to make them satisfactory and acceptable to foreign investors who were in the majority in the GSE and also to protect domestic investors. It is concluded from the findings that capital markets could be driving forces for the observance of IASC standards by companies.

15.4.15 IMPACT OF ACCOUNTING REGULATION ON OBSERVANCE OF IASC STANDARDS IN ANNUAL REPORTS IN GHANA

The period of high accounting regulation also saw a higher observance of IASC standards than the period of low regulation. Indeed, observance of IASC standards increased with the successive introduction of accounting regulation.

The existence of a positive association between accounting regulation and the observance of IASC standards in Ghana was tested at the 5% level of significance using the Sign test. The results support Hypothesis 11 as a significant positive association between accounting regulation and observance of IASC standards was found. The conclusion from the results is that the introduction of accounting regulation led to a significant increase in the observance of IASC standards in Ghana from 1991-1997 compared to 1988-1990. This can be partly explained by the fact that the regulations introduced in Ghana, particularly, the GNASBSs, reflected largely the requirements of IASC standards.

15.4.16 THE QUALITY OF FINANCIAL REPORTING IN GHANA AND THE DEVELOPMENT OF INTERNATIONAL CAPITAL MARKETS

The accounting measurement practices of the companies studied were, where disclosed, consistent with IASC standards. Moreover, a uniformity of practice was obtained on a majority of the items investigated. Even where a uniformity of practice was elusive, the H indexes were largely high denoting high comparability of accounting measurement methods used by the companies surveyed. Overall, the domestic comparability of accounting measurement methods in Ghana appears to be higher than what obtains in some ECMs and the developed capital markets[7] [Tay, 1989; Van der Tas, 1992; Emenyonu, 1993; Emenyonu and Gray, 1992, 1996; Herrmann and Thomas, 1995; Archer et al., 1995; Murphy, 1996]. The level of disclosure observed in Ghana increased over time and was comparable to what was observed in other ECMs such as Nigeria, South Africa, Malaysia and Mexico. In addition, the observance of IASC standards in Ghana compared favourably with trends in other countries and was even better than others such as Botswana and Zimbabwe.

[7] The studies in the developed capital markets largely focused on the measurement of international comparability of accounting measurement methods. However, the judgement made here is based on the data reported for the individual countries in those studies.

It is likely that if GNASBSs, which are largely the same as IASC standards, are effectively enforced, the GSE might witness a further improvement in accounting and disclosure in future. So far as financial reporting is concerned, the GSE appears to be well positioned to be integrated into the global capital markets. Nevertheless, like many ECMs, non-compliance with mandatory disclosure requirements was noted in Ghana. In this regard, it is imperative that accounting regulation is effectively enforced by authorities which have such a responsibility so as to increase the disclosure of information to investors and to enhance the efficiency of the GSE.

15.5 LIMITATIONS OF DATA COLLECTION AND ANALYSIS PROCEDURES AND FINDINGS

The sample of companies studied was limited to fifteen companies. While it is acknowledged that the sample size studied was small, it more or less represented the population of companies in the non-financial sectors in Ghana which were listed on the GSE. The small sample size hindered the application of the more robust parametric statistics in the analysis of the data collected. It was not possible therefore to determine, for example, the strength of each of the three factors whose impact on disclosure and observance of IASC standards was analysed. Multi-collinearity effects of the three factors, namely, corporate size, listing status and accounting regulation, and the relative strength of each factor on the disclosure of information in annual report have not been analysed. Had the scope of the data permitted, regression analysis would have been used to establish the strength of each of the factors studied on disclosure and observance of IASC standards by the companies studied.

The sample size used in the study, however, made it possible to study each company in greater detail over a longer period of time, 1988-1997. Moreover, five professional accounting and auditing firms were interviewed to ascertain their role in the promotion of IASC standards in Ghana. Although the firms interviewed included four of the 'Big Five' international accounting firms who command a significant market share in Ghana, a cautionary note is sounded in generalising the finding.

The H index which was used to evaluate the comparability of accounting methods is a version of a concentration index. It needs to be recognised that the use of concentration indexes to assess comparability of financial reports is still at an early stage of development [Emenyonu, 1993; Emenyonu and Gray, 1996]. Tests do not exist to assess the significance of these indexes. In this study, therefore, it has not been possible to indicate how trivial or significant the H-indexes were for the period studied. Moreover, comparability of financial reports was assessed on an item-by-item basis and not for the entire report.

The study had a primary focus on the capital market sector of the Ghana economy. It did not cover unlisted companies in Ghana. Similarly, interviews were only with participants in the capital market and officials of those firms or institutions connected with the GSE. The study did not, therefore, seek a view beyond the parameters of financial reporting in the context of the Ghana Stock Exchange.

As with earlier studies elsewhere, the nature of the companies investigated in this study determined the scope of corporate characteristics which could be analysed. In this study two corporate characteristics, namely, size, and listing status were examined. Of a range of relevant external environmental factors, accounting regulation, capital market development and international accounting standards were studied directly. International influences of multinational enterprises, historical antecedents and domestic professional development were assessed indirectly, albeilt less rigorously.

The perceptions and opinions of respondents to interviews are usually influenced by their prejudices and situation. Further, the results can be influenced by the research process itself, the personal traits of and environmental influences on the individuals. While every effort to eliminate distortions of responses was taken, the answers of the respondents to the questions asked in this study could have been subject to their personal influences and possible biases.

Of the many media for corporate financial disclosures, this study focused on only one, the annual report, the pre-eminent medium. In effect, it did not consider financial disclosure through other media, e.g. prospectus, interim report, press coverage, journals, interviews with corporate officials, seminars, etc. A more comprehensive perspective of financial disclosure by companies in Ghana may be obtained from a study of other disclosure media in addition to the annual report.

15.6 FUTURE RESEARCH

Even though one of the strengths of this study is the coverage of a ten year period, it has been limited to companies listed on the GSE as already mentioned. It is suggested that a future study be expanded to include unlisted companies in Ghana. Such a study would provide a more comprehensive view of financial reporting in Ghana. It would also afford the opportunity of a larger sample to enable a more robust statistical analysis of the relative influences of the various factors on disclosure and observance of IASC standards by companies in Ghana. The influence of factors such as culture, education, professional accounting qualifications, and management on financial reporting could be studied also. In addition, the impact of factors such as leverage, type of auditors, profitability, type of ownership, organisational structure, among others, on financial reporting could be studied given an expanded sample size or more diverse company profiles. A more comprehensive survey of the role of professional accounting firms in Ghana in promoting IASC standards is necessary.

An extensive survey of the opinions of producers of information on the disclosure of low disclosure items revealed by this study is desirable. Such a study could focus on an evaluation of the costs and benefits of the disclosure of these information items. The items which could be investigated include forecasts, strategies, inflation adjusted information, value added information and environmental information.

15.7 OVERALL CONCLUSION

This study has made a number of significant findings. These are :

(i) The British colonial influence, the development of the capital market and international accounting standards influenced accounting regulation in Ghana.

(ii) The introduction of accounting regulation, in the form of GNASBSs, and the development of the capital market did not alter significantly the accounting measurement methods used by the companies studied.

(iii) Disclosures of forecasts, value added information, strategies and environmental information was low among companies while no company disclosed inflation adjusted information. In view of the high cost associated with disclosure, the producers of information were loathe to disclose forecasts, inflation adjusted information and strategies.

(iv) The corporate size factor was evidently influential in the disclosure of overall information, voluntary information, financial review information, value added information, non-financial and social information, profitability information and state of affairs information but not mandatory information, company background information, accounting policies and cash flow information.

(v) The listing status factor led to a significant increase in overall and voluntary disclosures and all the categories of information studied with the exception of state of affairs information.

(vi) Non-compliance with disclosure requirements among companies was observed which was traced to weak monitoring and enforcement by the relevant agencies in Ghana. Notwithstanding non-compliance with mandatory disclosure requirements, the introduction of accounting regulation had a significant influence on overall disclosure, company background information, accounting policies and profitability information. However, the introduction of accounting regulation did not significantly increase the disclosures of cash flow information and state of affairs information. There was also a decline in mandatory disclosure levels after the introduction of new accounting regulations from the levels which existed before.

(vii) IASC standards were found to have been adopted as the basis for developing accounting standards for Ghana by the ICAG. It was the general view of respondents that IASC standards were necessary to ensure that financial reporting by companies listed in the GSE measure up to international standards.

(viii) The ICAG and professional accounting and auditing firms in Ghana were found to be active promoters of IASC standards. This finding suggests that professional institutes and accounting and auditing firms are effective vehicles for the promotion of IASC standards.

(ix) In addition to IASC standards which were observed by a majority of companies, the application of UK, US and French GAAPs was also evident. The origin of the companies studied and professional training of key accounting personnel were discernible in the use of the foreign GAAPs.

(x) The increase in the observance of IASC standards in annual reports in Ghana from 1988-1997 was due mainly to the influence of GSE listing and the introduction of new accounting regulations.

The findings of this study are a significant contribution to knowledge. Being the first study of its kind in Ghana, it has added to the growing literature on financial reporting in ECMs and developing countries in general. Unlike many studies, this study was longitudinal and used the environmental determinism paradigm to study the evolution and quality of financial reporting in an ECM. As identified by this study, future research will be necessary to deal with some additional areas of interest relating to the state and evolution of financial reporting in Ghana.

APPENDIX 1
PARTICULARS OF INTERVIEW RESPONDENTS IN GHANA

Name	ORGANISATION	Designation	Interview date
CORPORATE EXECUTIVES			
Aidoo, C S	Mechanical Lloyd Company Limited	Finance Director	10 July 1998
Ampah, S W	Guinness Ghana Limited	Finance Manager	13 August 1998
Annan, D	Fan Milk Limited	Finance Manager	16 July 1998
Aryee, S	Accra Brewery Limited	Commercial Manager[1]	10 July 1998
Ayisi, J A	Mobil Oil Ghana Limited	Accounts Manager	28 July 1998
Boame, C K	CFAO Ghana Limited	Financial Controller	22 September, 1998
Boateng, K	Unilever Ghana Limited	Audit/Special Projects Manager	21 September, 1998
Dean, B	Pioneer Tobacco Company Limited	Finance Director	12 August 1998
Khoury, E G	Metalloplastica Ghana Limited	Managing Director	8 July 1998
Korantang, F S	Ghana Breweries Limited[2]	Finance Director	30 July 1998
Korley, S 0	Super Paper Products Company Limited	Chief Accountant	9 July 1998
Kwarteng, K	Pioneer Aluminium Factory Limited	Managing Director	6 July 1998
Nyako, J P A	Aluworks Limited	Managing Director	6 July 1998

APPENDIX 1 (continued)
PARTICULARS OF RESPONDENTS IN GHANA

Name	ORGANISATION	Designation	Interview date
EXTERNAL AUDITORS			
Abotsie, P	Pricewaterhouse Coopers[3]	Managing Partner	29 July 1998
Adu-Gyamfi (Mrs), A	Panel Kerr Forster	Manager	16 July 1998
Parry, J E K A	Rockson, Adoe & Parry Co.	Partner	17 July 1998
Sey, J	Deliotte & Touche	Partner	15 July 1998
Tuffour, K	KPMG	Partner	28 July 1998
REGULATORS			
Amoa, Y	Ghana Stock Exchange	Managing Director	27 July 1998
Anyimadu (Dr), K	Securities Regulatory Commission	Executive Secretary	7 August 1998
Saah, J A	Registrar General's Department	Assistant Registrar General	9 July 1998
Brown, R A	Institute of Chartered Accountants Ghana	Registrar/Chief Executive	13 July 1998
FINANCIAL ANALYSTS			
Ashong, M	Ecobank Stockbrokers Limited	Head	1 September 1998
Bampoe-Addo, J	Gold Coast Securities Limited	Manager, Sales & Trading	1 September 1998

APPENDIX 1 (continued)
PARTICULARS OF RESPONDENTS IN GHANA

Name	ORGANISATION	Designation	Interview date
Brantuo, Y	First Atlantic Brokers Limited	Manager, Capital Markets and Securities	28 August 1998
Botchway-Annang, H	CAL Brokers Limited	Authorised Dealer	31 August 1998
Barnor (Dr), A W	NTHC Brokers Limited	General Manager	14 September 1998
Kyei, S	New World Investments Limited	Corporate Finance Manager	8 September 1998
Nuer, F	SDC Brokerage Services Limited	Chief Broker	8 September 1998
Ogbarmey-Tettey, D	Databank Brokerage Limited	Vice President	27 August, 1998
Sarpong, Y N	Merban Stockbrokers Limited	Manager	27 September 1998
Yakubu, F	Sterling Financial Services Limited	Head of Operations	10 September 1998

[1] The Commercial Manager is in charge of finance in the Company.

[2] The time of the study, Kumasi Brewery Limited had merged with Achimota Brewery Company Limited to form Ghana Breweries Limited.

[3] Coopers and Lybrand had merged with Price Waterhouse at the time of the study.

APPENDIX 2
ACCOUNTING MEASUREMENT METHODS CHECKLIST

A	**BASIS OF VALUATION OF STOCK-IN-TRADE**
	Historical cost
	Market value
	Lower of cost and net realisable value
	Other
B	**METHODS FOR ASSIGNING COST TO INVENTORIES**
	First-in-First-Out
	Last-in- First-Out
	Weighted average cost
	Other
C	**BASIS OF VALUATION OF PROPERTY**
	Historical cost
	Market valuation
	Other
D	**DEPRECIATION OF EQUIPMENT**
	Straight-line
	Reducing balance
	Other
E	**TRANSLATION OF FOREIGN CURRENCY TRANSACTIONS**
	Spot rate
	Average rate for the period
	Closing rate
	Other

APPENDIX 2 (continued)
ACCOUNTING MEASUREMENT METHODS CHECKLIST

F	**TRANSLATION OF BALANCES HELD IN FOREIGN CURRENCY**
	Spot rate
	Closing rate
	Average rate for the period
	Other
G	**TREATMENT OF DIFFERENCES ARISING FROM TRANSLATION OF TRANSACTIONS DENOMINATED IN FOREIGN CURRENCY**
	Included in profit and loss account
	Included as part of cost of assets
	Included in shareholders funds
	Other
H	**TREATMENT OF DIFFERENCES ARISING FROM TRANSLATION OF BALANCES HELD IN FOREIGN CURRENCY**
	Included in profit and loss account
	Included as part of cost of assets
	Included in shareholders funds
	Other
I	**VALUATION OF TRADE INVESTMENT**
	Historical cost
	Market value
	Lower of cost and market value
	Other

APPENDIX 2 (continued)
ACCOUNTING MEASUREMENT METHODS CHECKLIST

J	**VALUATION OF INVESTMENT PROPERTIES**
	Historical cost
	Market value
	Lower of cost and market value
	Other
K	**DEFERRED TAXATION ARISING FROM REVALUATION OF FIXED ASSETS**
	'Nil' provision
	'Full' provision
	'Partial provision'
	Other
L	**DEFERRED TAXATION ARISING FROM DIFFERENCES BETWEEN RATES OF DEPRECIATION AND CAPITAL ALLOWANCES FOR FIXED ASSETS**
	'Nil' provision
	'Full' provision
	'Partial provision'
	Other

APPENDIX 3
DISCLOSURE CHECKLIST

No.	Information Item/Category	Mandatory	Voluntary	IASC
A	**GENERAL COMPANY INFORMATION**			
1	Name of enterprise	♠		∞
2	Legal form of enterprise	♠		∞
3	Address of registered office or principal place of business	♠		
4	Description of nature of operations or principal activities		♣	∞
5	Name of parent enterprise	♠		
6	Origin of parent company	♠		
7	Particulars of company secretary	♠		
8	Address of each office where register of securities is kept	♠		
9	Auditors opinion	♠		
10	History of company		♣	
B	**VALUE ADDED INFORMATION**			
11	Value added amount		♣	
12	Value added ratios or percentages		♣	
13	Value added graphs or pie charts		♣	
14	Qualitative value added		♣	
15	Comparative value added information for current and preceding years		♣	
16	Period of value added statement		♣	

APPENDIX 3 (continued)
DISCLOSURE CHECKLIST

No.	Information Item/Category	Mandatory	Voluntary	IASC
C	**FINANCIAL REVIEW**			
17	Analysis of current results- ratios, amounts, percent changes from previous year etc.		♣	
18	Qualitative review of results		♣	
19	Factors determining current year's performance		♣	
20	Factors determining future performance		♣	
21	Financial summary for at least 3 years		♣	
22	Forecast income-quantitative		♣	
23	Forecast revenue-quantitative		♣	
24	Forecast capital expenditure-quantitative		♣	
25	Forecast income-qualitative		♣	
26	Forecast revenue-qualitative		♣	
27	Forecast capital expenditure-qualitative		♣	
D	**NON-FINANCIAL AND SOCIAL INFORMATION**			
28	Names of directors		♣	
29	Ages of directors		♣	
30	Professional qualifications of directors		♣	
31	Commercial experience of directors		♣	
32	Objectives or mission and strategies		♣	
33	Average number of employees		♣	

APPENDIX 3 (continued)
DISCLOSURE CHECKLIST

No.	Information Item/Category	Mandatory	Voluntary	IASC
34	Employee welfare programmes		♣	
35	Employee training		♣	
36	Employee safety measures		♣	
37	Industrial relations		♣	
38	Environmental impact programmes		♣	
39	Community assisted programmes		♣	
E	**ACCOUNTING POLICIES**			
40	Statement of accounting policies	♠		∞
41	Basis of accounting	♠		∞
42	Basis of valuation of inventories	♠		∞
43	Inventory costing methods	♠		∞
44	Basis for valuation of fixed assets	♠		∞
45	Methods of depreciation of fixed assets	♠		∞
46	Depreciation rates or useful lives of each class of fixed assets	♠		∞
47	Basis of valuation of investment properties	♠		∞
48	Basis of valuation of trade investments	♠		∞
49	Methods used to translate foreign currency transactions	♠		∞
50	Methods used to translate balances held in foreign currency	♠		∞
51	Treatment of exchange differences	♠		∞

APPENDIX 3 (continued)
DISCLOSURE CHECKLIST

No.	Information Item/Category	Mandatory	Voluntary	IASC
52	Deferred taxation arising from different capital allowances and depreciation rates	♠		∞
53	Deferred taxation arising from capital gains on revaluation of fixed assets	♠		∞
F	**CASH FLOW**			
54	Funds flow from operations	♠		∞
55	Funds from other sources	♠		∞
56	Dividend paid	♠		∞
57	Taxes paid	♠		∞
58	Uses of funds other than dividend and taxes paid	♠		∞
59	Working capital analysis	♠		∞
60	Analysis of liquid funds	♠		∞
61	Comparative cash flow figures for currency year and preceding year	♠		∞
62	Period of cash flow report	♠		∞
G	**PROFITABILITY**			
63	Sales or turnover	♠		∞
64	Cost of sales	♠		∞
65	Gross profit or operating profit	♠		∞
66	General, selling and administration expenses	♠		∞
67	Income from other sources	♠		∞
68	Income tax expense	♠		∞

APPENDIX 3 (continued)
DISCLOSURE CHECKLIST

No.	Information Item/Category	Mandatory	Voluntary	IASC
69	Profit before tax	♠		∞
70	Profit after tax	♠		∞
71	Interest expense	♠		∞
72	Dividend amount	♠		
73	Amount of exchange gain or loss	♠		∞
74	Profit or loss on disposal of fixed assets	♠		∞
75	Auditors' fees and expenses	♠		
76	Directors' emoluments	♠		
77	Retirement benefit cost	♠		∞
78	Depreciation expense	♠		∞
79	Gross profit margin percent		♣	
80	Net profit margin percent		♣	
81	Dividend per share		♣	
82	Earnings per share		♣	
83	Price/Earnings ratio		♣	
84	Return on shareholders' funds		♣	
85	Inflation-adjusted profit	♠		∞
86	Period of profit and loss accounting	♠		∞
87	Comparative profit and loss figures for currency and preceding years	♠		∞
H	**STATE OF AFFAIRS**			
88	Total amount of inventories	♠		∞

APPENDIX 3 (continued)
DISCLOSURE CHECKLIST

No.	Information Item/Category	Mandatory	Voluntary	IASC
89	Amount of each class of inventories	♠		∞
90	Gross book value of each class of fixed assets at beginning of period	♠		∞
91	Gross book value of each class of fixed assets at end of period	♠		∞
92	Net book value of each class of fixed assets at beginning of period	♠		∞
93	Net book value of each class of fixed assets at end of period	♠		∞
94	Accumulated depreciation of each class of fixed assets at beginning of period	♠		∞
95	Accumulated depreciation of each class of fixed assets at end of period	♠		∞
96	Additions to gross book value of each class of fixed assets for period	♠		∞
97	Disposals from gross book value of each class of fixed assets for period	♠		∞
98	Depreciation for period of each class of fixed assets	♠		∞
99	Amount of capital-work-in-progress	♠		∞
100	Indices used to revalue fixed assets-replacement cost, inflation rate etc.	♠		∞
101	Effective date of revaluation of fixed assets	♠		∞
102	Nature of revaluation- professional or management assessment	♠		∞
103	Particulars of independent valuer, if any	♠		∞

APPENDIX 3 (continued)
DISCLOSURE CHECKLIST

No.	Information Item/Category	Mandatory	Voluntary	IASC
104	Cost of revalued fixed assets	♠		∞
105	Amount of revalued fixed assets	♠		∞
106	Revaluation surplus account	♠		∞
107	Movement in revaluation surplus account	♠		∞
108	Brief description of major freehold and leasehold buildings	♠		
109	Location of major freehold and leasehold buildings	♠		
110	Restrictions on remittability of income	♠		∞
111	Names of subsidiaries	♠		∞
112	Country of incorporation of subsidiaries	♠		∞
113	Nature of business of subsidiary companies	♠		
114	Ownership or voting interest in subsidiary companies	♠		∞
115	Reasons for not consolidating accounts of a subsidiary company	♠		∞
116	Number of authorised shares by class	♠		∞
117	Par or no par value per share	♠		∞
118	Reconciliation of beginning and end of period number of shares	♠		∞
119	Number of fully paid shares by class	♠		∞
120	Number of shares not fully paid by class	♠		∞

APPENDIX 3 (continued)
DISCLOSURE CHECKLIST

No.	Information Item/Category	Mandatory	Voluntary	IASC
121	Voting rights attached to each class of shares	♠		♠
122	Distribution of each class of securities according to categories	♠		
123	Names of twenty largest holders of each class of equity securities	♠		
124	Number of shares of each class of securities held by each of the twenty largest holders of securities	♠		
125	Percentage of the holdings of each class of securities held by each of the twenty largest holders of securities by class	♠		
126	Each director's interest in the share capital of the company or related company	♠		
127	Number of shareholders	♠		
128	Movement in stated capital	♠		∞
129	Stated capital	♠		∞
130	Dividend payable	♠		∞
131	Provision for pension benefits	♠		∞
132	Term loans and debentures	♠		∞
133	Trade receivables	♠		∞
134	Trade payable	♠		∞
135	Prepaid expenses	♠		∞
136	Accrued expenses	♠		∞
137	Deferred tax liability	♠		∞

APPENDIX 3 (continued)
DISCLOSURE CHECKLIST

No.	Information Item/Category	Mandatory	Voluntary	IASC
138	Trade investments	♠		∞
139	Bank overdraft	♠		∞
140	Cash in hand and at bank	♠		∞
141	Total current assets	♠		∞
142	Total current liabilities	♠		∞
143	Total shareholders' funds	♠		∞
144	Total long-term liabilities	♠		∞
145	Total fixed assets	♠		∞
146	Income surplus account	♠		∞
147	Movement in income surplus account	♠		∞
148	Inflation-adjusted assets, liabilities and capital	♠		∞
149	Comparative balance sheet figures for current and preceding years	♠		∞
150	Date on which balance sheet is drawn	♠		∞
151	Share price at end of period		♣	
152	Share price- qualitative comments		♣	
153	Share price trends		♣	
154	Current ratio		♣	
155	Debt/Equity ratio		♣	
156	Net assets per share		♣	

APPENDIX 4
LETTER REQUESTING FOR ANNUAL REPORTS

[WARWICK BUSINESS SCHOOL HEADED LETTER FORM]

....

....

Dear Sir/Madam,

REQUEST FOR ANNUAL REPORTS

I am conducting a study into financial reporting practices of companies listed on the Ghana Stock Exchange towards the preparation of a doctoral thesis at the University of Warwick in the United Kingdom. The study aims at ascertaining the quality of information disclosure in annual reports of listed companies and the regulation of financial reporting in Ghana. In this regard, I need the annual report of your company for the financial years ending in 1988, 1989, 1990, 1991, 1992, 1993, 1994, 1995, 1996 and 1997.

I should be most grateful if you would kindly accede to my request.

My research assistant will contact you in due course to collect the reports.

I am counting on your co-operation.

Yours faithfully,

K K Sarpong
(Doctoral Researcher)

APPENDIX 5
SCORE SHEET FOR ACCOUNTING MEASUREMENT METHODS

Name of Company....................................... **Case Number..**		**Scores** Method Declared = yes (y); Not Disclosed = ND; Not Applicable = NA (treated as missing number in computer processing)				
Code	**Information Item**	**1988**	**1989**	**.........**	**.........**	**1997**
	Basis of valuation of stock-in-trade					
	Historical cost					
	Market value					
	Lower of cost and net realisable value					
	Other					
	Not disclosed					
	Not applicable					
	Methods for assigning cost to inventories					
	First-in-First-Out					
	Last-in- First-Out					
	Weighted average cost					
	Other					
	Not disclosed					
	Not applicable					
	:					
	:					
	:					
	:					
	:					
	:					

Observations and comments:

APPENDIX 6
SCORE SHEET FOR OVERALL/MANDATORY/VOLUNTARY/IASC DISCLOSURES[1]

Name of Company... **Case Number..**		**Scores** Method Declared = yes (y); Not Disclosed = ND; Not Applicable = NA (treated as missing number in computer processing)				
Code	**Information Item**	**1988**	**1989**	**.........**	**.........**	**1997**
	General Company Information					
A1	Name of enterprise					
A2	Legal form of enterprise					
A3	Auditors opinion					
A4	Address of registered office/principal business					
A5	Name of parent enterprise					
A6	Origin of parent company					
A7	Particulars of company secretary					
A8	Address(es) of office(s) where register of securities is kept					
A9	History of company					
	Financial Review					
B1	:					
	:					
Bn	:					
	Value Added					
C1	:					
	:					
Cn						

[1] Delete as appropriate

Observations and Comments

APPENDIX 7
INTERVIEW QUESTIONS

QUESTIONS FOR REGISTRAR OF COMPANIES

1 Do all listed companies file annual reports with the Registrar General's Department and within the period specified in the Ghana Companies Code

2 How does your department ascertain and ensure that listed companies comply with the financial reporting requirements of the Ghana Companies Code?

3 Is your department aware of any instance of non-compliance with financial reporting requirements of the Ghana Companies Code by any of the companies listed on the Ghana Stock Exchange? What are the specific instances of non-compliance?

4 What action did your department take on any instances of non-compliance with the financial reporting requirements of the Ghana Companies Code by a company?

QUESTIONS FOR REGISTRAR/CHIEF EXECUTIVE OF THE INSTITUTE OF CHARTERED ACCOUNTANTS (GHANA)

1 Does the ICAG support the adoption of IASC standards? Why or why not?

2 If your answer to Question 1 is 'yes' how does the ICAG display its support?

3 What has been the role of the ICAG in the establishment and functioning of the Ghana National Accounting Standards Board?

4 What is the membership of the Ghana National Accounting Standards Board?

5 What are the processes for setting accounting standards by the Ghana National Accounting Standards Board?

6 To what extent do IASC standards influence the standards of the Ghana National Accounting Standards Board? Is it desirable that local accounting standards be based on IASC standards?

7 To what extent are the standards of the Ghana National Accounting Standards Board observed by companies in Ghana and why?

QUESTIONS FOR EXTERNAL AUDITORS OF LISTED COMPANIES

1 Does your firm insist on the use of IASC standards by clients? Why or why not?

2 If your answer to Question 1 is 'yes' how do you ensure that IASC standards are observed?

3 Do all your clients use IASC standards or other GAAP? Do the listed companies you audit observe IASC standards? Which of the IASC standards are observed?

APPENDIX 7 (continued)

INTERVIEW QUESTIONS

4 Does your firm support the development of local accounting standards by the Ghana National Accounting Standards Board? Why or why not?

5 Should local accounting standards be based on IASC standards? Why or why not?

QUESTIONS FOR EXECUTIVES OF LISTED COMPANIES

1 Which accounting standards or GAAP are used by your company? Why?

2 Why does your company use or not use IASC standards? Why or why not?

3 Will your company be prepared to make further disclosures in respect of the following if not disclosed presently? Why or why not? [Take into account the net cost or net benefit of disclosure].
- Inflation-adjusted information
- Strategies
- Environmental impact projects and programmes
- Forecasts
- Value added information.

4 Do you support the development of local accounting standards by the Ghana National Accounting Standards Board? Why or why not?

5 Should local accounting standards be based on IASC standards? Why or why not?

6 What factors motivated your company to change accounting measurement methods?

QUESTIONS FOR FINANCIAL ANALYSTS

1 Do you think listed companies in Ghana should observe IASC standards? Why or why not?

2 Do you see the need for the development of local accounting standards? Why or why not?

3 Should local accounting standards be based on IASC standards? Why or why not?

QUESTIONS FOR THE EXECUTIVE SECRETARY, SECURITIES REGULATORY COMMISSION

1 How does the Securities Regulatory Commission ascertain and ensure that listed companies comply with the financial reporting requirements of the Ghana Companies Code and the listing regulations of the Ghana Stock Exchange?

2 Is the Securities Regulatory Commission aware of any instance of non-compliance with financial reporting requirements of the Ghana Companies Code and the listing regulations of the Ghana Stock Exchange by any listed company? What are

the specific instances of non-compliance, if any?

3 What action(s) did the Securities Regulatory Commission take on the observed non-compliance financial reporting requirements?

4 Does the Securities Regulatory Commission oblige listed companies in Ghana to comply with IASC standards? Why or why not?

5 Has the Securities Regulatory Commission received any complaint from any shareholder about inadequacy of disclosure by any listed company? What was the nature of the complaint, if any? What action was taken on the complain?

6 Do you see the need for the development of local accounting standards? Why or why not?

7 Should local accounting standards be based on IASC standards? Why or why not?

QUESTIONS FOR MANAGING DIRECTOR, GHANA STOCK EXCHANGE

1 How does the Ghana Stock Exchange ascertain and ensure that listed companies comply with the financial reporting requirements of the Ghana Companies Code and the listing regulations of the Exchange?

2 Is the Ghana Stock Exchange aware of any instance of non-compliance with financial reporting requirements of the Ghana Companies Code and the listing regulations of the Exchange by any listed company? What are the specific instances of non-compliance, if any?

3 What action(s) did the Ghana Stock Exchange take on the observed instances of non-compliance financial reporting requirements?

4 Does the Ghana Stock Exchange oblige listed companies in Ghana to comply with IASC standards? Why or why not?

5 Has the Ghana Stock Exchange received any complaint from any shareholder about inadequacy of disclosure by any listed company? What was the nature of the complaint, if any? What action was taken on the complain?

6 Do you see the need for the development of local accounting standards? Why or why not?

7 Should local accounting standards be based on IASC standards? Why or why not?

8 To what extent does the Ghana Stock Exchange support the use of the standards developed by the Ghana National Accounting Standards Board?

APPENDIX 8
LETTER CONFIRMING INTERVIEW
APPOINTMENT AND FORWARDING INTERVIEW QUESTIONS

[WARWICK BUSINESS SCHOOL HEADED LETTER FORM]

....

....

.... 1998.

Dear Sir/Madam,

RESEARCH INTO FINANCIAL REPORTING BY COMPANIES LISTED ON THE GHANA STOCK EXCHANGE

As I indicated in my letter dated............ requesting your company's annual reports, I am undertaking a study into financial reporting practices of companies listed on the Ghana Stock Exchange towards the preparation of a doctoral thesis at the University of Warwick in the United Kingdom. The study aims at ascertaining the quality of information disclosure in annual reports of listed companies and the regulation of financial reporting in Ghana.

It is hoped that the recommendations flowing from the study will be helpful in the formulation of financial reporting policy in Ghana.

As part of the study, I need to ascertain your views on issues or questions detailed in the attached *Interview Schedule*. As agreed during our telephone conversation/meeting, I am forwarding the interview questions to you in advance for your study.

I wish to confirm further that your responses to the attached questions will be treated in absolute confidence and that the anonymity of any extracts used in the writing of the thesis is guaranteed.

While in Ghana between now and September 25, 1998, you may please contact me, if necessary, on any of the following telephone numbers:
(021) 400760
(027) 542203.

While thanking you in advance, I remain

Yours faithfully,

K K Sarpong
(Doctoral Researcher)

APPENDIX 9
LETTER EXPRESSING APPRECIATION TO INTERVIEW RESPONDENTS

[WARWICK BUSINESS SCHOOL HEADED LETTER FORM]

....

....

.... 1998

Dear Mr/Mrs/Dr.......................,

Re: RESEARCH INTO FINANCIAL REPORTING BY COMPANIES LISTED ON THE GHANA STOCK EXCHANGE

I refer to my recent interview with you on the above subject and wish to express my deep appreciation to you for providing me with the necessary information.

I found our encounter to be stimulating and hope there will be further interaction between us on this and/or other related topics in future.

Once again, thank you for your co-operation.

Sincerely yours,

K K Sarpong
(Doctoral Researcher)

APPENDIX 10
DISCLOSURE OF POLICIES FOR ACCOUNTING MEASUREMENT
METHODS IN ANNUAL REPORTS IN GHANA: 1988-1997 (scores are in percentages)

Accounting Policy	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Valuation of stock-in-trade	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Methods for assigning cost to stock-in-trade	40.00	40.00	40.00	46.67	46.67	46.67	53.33	53.33	53.33	46.67
Valuation of property	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Valuation of plant and machinery	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Valuation of equipment	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Depreciation of property	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Depreciation of plant and machinery	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Depreciation of equipment	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Translation of foreign currency transactions	60.00	60.00	73.33	66.67	66.67	60.00	66.67	66.67	66.67	66.67
Translation of balances held in foreign currency	80.00	80.00	86.67	80.00	86.67	86.67	100.00	100.00	100.00	100.00
Treatment of exchange differences	20.00	20.00	33.33	33.33	26.67	40.00	53.33	53.33	53.33	46.67
Valuation of trade investment	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Valuation of investment properties	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Deferred taxation arising from capital gains on revaluation of fixed assets	31.00	31.00	36.00	36.00	26.67	26.67	40.00	40.00	40.00	40.00
Deferred taxation arising from different capital allowances and depreciation rates	46.67	46.67	46.67	46.67	53.33	53.33	60.00	60.00	60.00	60.00

APPENDIX 11

COMPARABILITY OF ACCOUNTING MEASUREMENT METHODS IN GHANA: 1988-1997- H INDEXES

ACCOUNTING MEASUREMENT METHODS items	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Valuation of stock-in-trade	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000
Methods for assigning cost to stock-in-trade	0.5556	0.5556	0.5556	0.5102	0.5102	0.5102	0.5313	0.5313	0.5313	0.5102
Valuation of property	0.7689	0.7689	0.8756	1.0000	1.0000	1.0000	1.0000	0.8756	0.8756	0.8756
Valuation of plant and machinery	0.5022	0.5022	0.5022	0.5556	0.5556	0.5556	0.5408	0.5200	0.5200	0.5200
Valuation of equipment	0.5200	0.5200	0.5022	0.5022	0.5022	0.5022	0.5000	0.5022	0.5022	0.5022
Depreciation of property	0.8756	0.8756	0.8756	0.7689	0.8756	0.8756	0.8673	0.8756	0.8756	0.8756
Depreciation of plant and machinery	0.6800	0.6800	0.6800	0.6089	0.6089	0.6089	0.5918	0.6089	0.6089	0.6089
Depreciation of equipment	0.6800	0.6800	0.6800	0.6089	0.6089	0.6089	0.5918	0.6089	0.6089	0.6089
Translation of foreign currency transactions	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000
Translation of balances held in foreign currency	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000
Treatment of exchange differences	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000
Valuation of trade investments	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000
Valuation of investment properties	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000
Deferred taxation arising from capital gains on revaluation of fixed assets	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000
Deferred taxation arising from different capital allowances and depreciation rates	0.4286	0.4286	0.4286	0.4286	0.4063	0.3438	0.3580	0.3580	0.3580	0.3580

APPENDIX 12
AVERAGE DISCLOSURE AND CONFORMITY INDEXES IN GHANA: 1988-1997

Item of Information	Overall Disclosure Index	Mandatory Disclosure Index	Voluntary Disclosure Index	IASC Conformity Index
	%	%	%	%
Name of enterprise	100.0	100.0	•	100.0
Legal form of enterprise	100.0	100.0	•	100.0
Auditors opinion	100.0	100.0	•	•
Address of registered office or principal place of business	100.0	100.0	•	•
Particulars of company secretary	100.0	100.0	•	•
Names of directors	100.0	•	100.0	•
Statement of accounting policies	100.0	100.0	•	100.0
Valuation of inventories	100.0	100.0	•	100.0
Valuation of fixed assets	100.0	100.0	•	100.0
Methods of depreciation of fixed assets	100.0	100.0	•	100.0
Valuation of investment properties	100.0	100.0	•	100.0
Sales or turnover	100.0	100.0	•	100.0
Cost of sales	100.0	100.0	•	100.0
Gross profit or operating profit	100.0	100.0	•	100.0
General, selling and administration expenses	100.0	100.0	•	100.0
Income tax expense	100.0	100.0	•	100.0
Profit before tax	100.0	100.0	•	100.0
Profit after tax	100.0	100.0	•	100.0
Dividend amount	100.0	100.0	•	•
Dividend per share	100.0	•	100.0	•
Auditors fees and expenses	100.0	100.0	•	•
Directors emoluments	100.0	100.0	•	•
Depreciation expense	100.0	100.0	•	100.0
Period of profit and loss account	100.0	100.0	•	100.0
Comparative profit and loss figures for current and preceding years	100.0	100.0	•	100.0
Profit or disposal of fixed assets	100.0	100.0	•	100.0

APPENDIX 12 (continued)
AVERAGE DISCLOSURE AND CONFORMITY INDEXES IN GHANA: 1988-1997

Item of Information	Overall Disclosure Index	Mandatory Disclosure Index	Voluntary Disclosure Index	IASC Conformity Index
	%	%	%	%
Total current assets	100.0	100.0	•	100.0
Total current liabilities	100.0	100.0	•	100.0
Total shareholders funds	100.0	100.0	•	100.0
Total fixed assets	100.0	100.0	•	100.0
Stated capital	100.0	100.0	•	100.0
Movements in stated capital account	100.0	100.0	•	100.0
Income surplus account	100.0	100.0	•	100.0
Movements in income surplus account	100.0	100.0	•	100.0
Capital surplus	100.0	100.0	•	100.0
Movements in capital surplus account	100.0	100.0	•	100.0
Cash in hand and at bank	100.0	100.0	•	100.0
Bank overdraft	100.0	100.0	•	100.0
Term loans and debentures	100.0	100.0	•	100.0
Dividend payable	100.0	100.0	•	100.0
Trade payable	100.0	100.0	•	100.0
Trade receivables	100.0	100.0	•	100.0
Amount of capital work-in-progress	100.0	100.0	•	100.0
Names of subsidiaries	100.0	100.0	•	100.0
Deferred tax liability	100.0	100.0	•	100.0
Prepayments	100.0	100.0	•	100.0
Accrued expenses	100.0	100.0	•	100.0
Trade Investments	100.0	100.0	•	100.0
Date on which balance sheet is drawn	100.0	100.0	•	100.0
Comparative balance sheet figures for current and preceding years	100.0	100.0	•	100.0
Total amount of inventories	100.0	100.0	•	100.0
Amount of each class of inventories	100.0	100.0	•	100.0

APPENDIX 12 (continued)
AVERAGE DISCLOSURE AND CONFORMITY INDEXES IN GHANA: 1988-1997

Item of Information	Overall Disclosure Index	Mandatory Disclosure Index	Voluntary Disclosure Index	IASC Conformity Index
	%	%	%	%
Gross book value of each class of fixed assets at beginning	100.0	100.0	•	100.0
Gross book value of each class of fixed assets at end	100.0	100.0	•	100.0
Accumulated depreciation of each class of fixed assets at beginning	100.0	100.0	•	100.0
Accumulated depreciation of each class of fixed assets at end	100.0	100.0	•	100.0
Net book value of each class of fixed assets at beginning	100.0	100.0	•	100.0
Net book value of each class of fixed assets at end	100.0	100.0	•	100.0
Additions to gross book value of each class of fixed assets for period	100.0	100.0	•	100.0
Disposals from gross book value of each class of fixed assets for period	100.0	100.0	•	100.0
Depreciation for period of each class of fixed assets	100.0	100.0	•	100.0
Basis of accounting	97.3	100.0	•	97.3
Number of fully paid shares by class	97.3	97.3	•	97.3
Number of authorised shares by class	96.0	96.0	•	96.0
Country of incorporation of subsidiaries	95.0	95.0	•	95.0
Cash flow or funds from operations	94.0	100.0	•	94.0
Funds from other sources	94.0	100.0	•	94.0
Uses of funds other than payment of taxes and dividend	94.0	100.0	•	94.0
Dividend paid	94.0	100.0	•	94.0
Taxes paid	94.0	100.0	•	94.0
Working capital	94.0	100.0	•	94.0
Analysis of liquid funds	94.0	100.0	•	94.0

APPENDIX 12 (continued)
AVERAGE DISCLOSURE AND CONFORMITY INDEXES IN GHANA: 1988-1997

Item of Information	Overall Disclosure Index	Mandatory Disclosure Index	Voluntary Disclosure Index	IASC Conformity Index
	%	%	%	%
Period of cash flow report	94.0	100.0	•	94.0
Comparative cash flow data for current and preceding years	94.0	100.0	•	94.0
Total long-term liabilities	93.3	93.3	•	93.3
Reconciliation of beginning and end number of shares	93.3	93.3	•	93.3
Address of each office where securities are kept	92.7	95.2	•	•
Nature of business of subsidiary companies	91.7	91.7	•	•
Ownership or voting interest in subsidiary companies	90.0	90.0	•	90.0
Translations of balances held in foreign currency	90.0	90.0	•	90.0
Income from other sources	89.5	89.5	•	89.5
Nature of revaluation- professional or management's assessments	88.6	88.6	•	88.6
Effective date of revaluation	82.2	82.2	•	82.2
Reasons for not consolidating accounts of subsidiary company	80.0	80.0	•	80.0
Interest expense	80.0	80.0	•	80.0
Provision for pension benefits	78.7	78.3	•	78.7
Depreciation rates of tangible fixed assets	78.0	78.0	•	78.0
Cost of revalued assets	70.1	70.1	•	70.1
Amount of exchange gain or loss	69.2	88.5	•	69.2
Translations of foreign currency transactions	66.0	66.0	•	66.0
Particulars of independent valuer, if any	65.0	65.0	•	65.0
Indication of par or no par value of shares	64.7	64.7	•	64.7
Name of parent enterprise	62.5	62.5	•	•
Analysis of current results- changes, financial ratios, percentages etc.	56.0	•	56.0	•

APPENDIX 12 (continued)
AVERAGE DISCLOSURE AND CONFORMITY INDEXES IN GHANA: 1988-1997

Item of Information	Overall Disclosure Index	Mandatory Disclosure Index	Voluntary Disclosure Index	IASC Conformity Index
	%	%	%	%
Distribution of each class of securities according to categories	55.5	•	•	•
Deferred taxation arising from differences in capital allowances and depreciation rates	53.3	60.0	•	53.3
Earnings per share	52.7	•	52.7	•
Net asset per share	51.3	•	51.3	•
Factors determining current years performance	50.0	•	50.0	•
Origin of parent enterprise	50.0	50.0	•	•
Qualitative comments on results	48.7	•	48.7	•
Inventories costing methods	46.0	46.0	•	46.0
Names of twenty largest holders of securities	42.3	42.3	•	•
Number of shares of each class of securities held by each of the twenty largest holders of securities	42.3	42.3	•	•
Description of nature of operations or principal activities	42.0	42.0	42.0	42.0
Financial summary for at least 3 years	40.7	•	40.7	•
Retirement benefits costs	40.7	33.3	•	40.7
Treatment of exchange differences	38.0	38.0	•	38.0
Percentage holdings of each class of securities by each of the twenty largest holders of securities	37.7	37.7	•	•
Number of shareholders	36.7	36.7	•	•
Factors determining future performance	36.6	•	36.6	•
Deferred taxation arising from capital gains on revalued assets	34.7	40.0	•	34.7
Each director's interest in the share capital of the company or related company	32.0	•	•	•
Industrial relations	28.0	•	28.0	•
Value added amounts	28.0	•	28.0	•
Value added ratios or percentages	28.0	•	28.0	•

APPENDIX 12 (continued)
AVERAGE DISCLOSURE AND CONFORMITY INDEXES IN GHANA: 1988-1997

Item of Information	Overall Disclosure Index	Mandatory Disclosure Index	Voluntary Disclosure Index	IASC Conformity Index
	%	%	%	%
Period of value added report	28.0	•	28.0	•
Comparative value added information for current and preceding years	28.0	•	28.0	•
Restrictions on remittability of gains and income	27.6	27.6	•	27.6
Valuation of trade investments	27.4	27.4	•	27.4
Number of shares not fully paid by class	25.0	25.0	•	25.0
Employee training	24.7	•	24.7	•
Share price trends	23.0	•	23.0	•
Average number of employees	20.7	•	20.7	•
Value added graphs	20.0	•	20.0	•
Return on shareholders funds	19.3	•	19.3	•
Net profit margin	18.7	•	18.7	•
Share price- qualitative comments	16.2	•	16.2	•
Current ratio	16.0	•	16.0	•
Voting rights attached to each class of shares	16.0	16.0	•	16.0
Share price at end of period	15.3	•	15.3	•
Community assisted programmes	10.7	•	10.7	•
Environmental impact projects	9.3	•	9.3	•
Employee welfare programmes	8.7	•	8.7	•
Forecast income- qualitative	8.0	•	8.0	•
Strategies and objectives	6.7	•	6.7	•
Forecast income- quantitative	5.3	•	5.3	•
Forecast capital expenditure- qualitative	4.7	•	4.7	•
Forecast revenue- quantitative	3.4	•	3.4	•
Debt\Equity ratio	3.4	•	3.4	•
Forecast revenue- qualitative	3.4	•	3.4	•

APPENDIX 12 (continued)
AVERAGE DISCLOSURE AND CONFORMITY INDEXES IN GHANA: 1988-1997

Item of Information	Overall Disclosure Index	Mandatory Disclosure Index	Voluntary Disclosure Index	IASC Conformity Index
	%	%	%	%
Brief description of major freehold and leasehold buildings	3.1	3.1	•	•
Location of major freehold and leasehold buildings	3.1	3.1	•	•
Gross profit margin	2.8	•	2.8	•
History of company	2.6	•	2.6	•
Employee safety measures	2.0	•	2.0	•
Forecast capital expenditure- quantitative	1.3	•	1.3	•
Ages of Directors	0.0	•	0.0	•
Professional qualification of directors	0.0	•	0.0	•
Commercial experience of directors	0.0	•	0.0	•
Qualitative value added	0.0	•	0.0	•
Price/Earnings ratio	0.0	•	0.0	•
Inflation adjusted profit or loss	0.0	0.0	•	0.0
Inflation adjusted balance sheet data	0.0	0.0	•	0.0

APPENDIX 13: OVERALL DISCLOSURE OF INFORMATION IN GHANA: 1988-1997- COMPANIES SCORES

Rank	Names of companies	1988-1997	1988 (%)	1989 (%)	1990 (%)	1991 (%)	1992 (%)	1993 (%)	1994 (%)	1995 (%)	1996 (%)	1997 (%)
1	Mobil Oil Ghana Limited	**75.1**	72.1	74.6	73.9	70.1	75.8	77.6	78.1	76.4	75.7	76.9
2	Unilever Ghana Limited	**74.4**	70.8	75.2	76.3	73.5	75.2	74.3	72.8	72.6	74.0	79.4
3	Guinness Ghana Limited	**73.3**	71.3	72.1	71.3	66.4	67.2	73.7	76.9	79.9	77.4	79.3
4	Aluworks Limited	**71.2**	61.9	62.5	64.1	65.4	67.3	70.4	76.9	79.7	80.3	83.2
5	Pioneer Tobacco Company Limited	**71.0**	64.2	67.9	65.9	69.1	73.2	73.5	76.6	73.5	71.2	75.6
6	Kumasi Brewery Limited	**70.1**	64.9	63.7	63.2	61.7	67.8	71.2	75.6	76.8	79.7	78.6
7	Paterson Zochonis Ghana Limited	**68.7**	62.8	63.5	65.0	61.1	71.4	77.3	74.1	70.1	70.7	75.0
8	Accra Brewery Limited	**67.9**	65.2	62.3	65.9	62.0	66.1	67.4	71.0	69.5	69.2	80.0
9	Pioneer Aluminium Factory Limited	**67.7**	62.3	62.9	62.9	63.8	67.0	69.8	70.1	71.9	71.6	74.4
10	Fan Milk Ghana Limited	**66.4**	64.9	64.2	66.7	66.7	62.6	67.2	66.4	67.6	68.3	69.5
11	CFAO Ghana Limited	**65.2**	65.7	66.4	64.5	65.7	65.8	67.2	67.2	61.0	61.6	66.7
12	UTC Estates of Ghana Limited	**61.7**	63.5	64.2	63.0	58.9	61.6	65.4	61.5	57.8	58.1	62.3
13	Mechanical Lloyd Company Limited	**61.0**	56.8	52.3	55.6	56.7	59.3	54.7	67.7	66.9	69.1	70.9
14	Metalloplastica Ghana Limited	**59.8**	51.5	52.7	52.3	55.4	57.6	65.1	68.0	63.0	65.0	67.2
15	Super Paper Products Limited	**59.0**	58.1	59.8	59.8	58.4	56.4	61.0	60.7	57.1	57.9	60.7
	Overall Disclosure Index	**67.5**	**63.7**	**64.3**	**64.7**	**63.6**	**66.1**	**68.8**	**70.8**	**69.4**	**70.0**	**73.3**

APPENDIX 14: MANDATORY DISCLOSURE OF INFORMATION IN GHANA: 1988-1997- COMPANIES SCORES

Rank	Name of Company	1988-1997	1988 (%)	1989 (%)	1990 (%)	1991 (%)	1992 (%)	1993 (%)	1994 (%)	1995 (%)	1996 (%)	1997 (%)
1	Pioneer Aluminium Factory Limited	**95.1**	96.7	96.7	98.4	96.9	93.9	94.0	92.9	93.6	93.9	93.8
2	Aluworks Limited	**93.9**	98.3	98.3	98.5	97.0	93.8	93.9	91.6	87.7	89.9	89.7
3	CFAO Ghana Limited	**93.0**	97.0	98.5	98.4	97.1	91.9	91.8	90.8	88.0	88.4	88.0
4	Paterson Zochonis Ghana Limited	**92.9**	93.0	93.0	94.5	86.1	94.6	93.5	95.7	93.1	93.4	92.2
5	Mobil Oil Ghana Limited	**92.3**	94.3	95.8	95.8	87.9	92.2	93.4	92.6	90.2	90.4	91.6
6	Unilever Ghana Limited	**90.0**	94.4	94.4	94.5	88.2	88.3	87.0	87.1	86.1	90.3	89.2
7	Kumasi Brewery Limited	**90.0**	92.8	94.3	94.3	86.5	86.7	86.5	91.0	88.7	90.0	89.7
8	Pioneer Tobacco Company Limited	**89.7**	88.2	88.2	92.7	91.5	91.2	92.3	91.3	87.1	87.3	87.0
9	Metalloplastica Ghana Limited	**89.0**	90.8	92.4	92.4	83.5	81.2	88.0	90.5	89.1	92.7	89.8
10	Accra Brewery Limited	**87.8**	91.0	89.4	95.5	86.7	86.7	85.6	84.4	83.3	83.8	91.0
11	Fan Milk Ghana Limited	**87.3**	91.0	91.4	92.9	87.2	83.2	85.2	83.3	86.5	85.7	86.6
12	Guinness Ghana Limited	**86.2**	90.1	90.3	88.7	81.3	81.3	87.8	84.8	86.7	85.4	85.2
13	UTC Estates of Ghana Limited	**86.0**	91.8	91.8	91.9	84.2	83.9	82.6	84.7	82.3	83.3	82.9
14	Super Paper Products Limited	**84.9**	91.8	93.7	93.7	90.3	82.9	81.3	80.3	78.4	78.9	77.5
15	Mechanical Lloyd Company Limited	**80.0**	82.4	76.2	80.0	80.6	73.1	73.1	83.3	80.9	84.4	85.0
	Mandatory Disclosure Index	**89.2**	**92.2**	**92.3**	**93.5**	**88.3**	**87.0**	**87.7**	**88.3**	**86.8**	**87.9**	**87.9**

APPENDIX 15: VOLUNTARY DISCLOSURE OF INFORMATION IN GHANA: 1988-1997- COMPANIES SCORES

Rank	Name of Company	1988-1997	1988 (%)	1989 (%)	1990 (%)	1991 (%)	1992 (%)	1993 (%)	1994 (%)	1995 (%)	1996 (%)	1997 (%)
1	Guinness Ghana Limited	**45.0**	35.9	39.5	38.5	35.7	35.7	35.7	54.8	54.8	59.5	59.5
2	Unilever Ghana Limited	**37.5**	21.1	36.8	38.5	40.5	42.9	35.7	38.1	40.5	35.7	45.2
3	Mobil Oil Ghana Limited	**36.4**	28.2	33.3	30.1	32.6	44.2	34.9	39.5	41.9	39.5	39.5
4	Pioneer Tobacco Company Limited	**35.7**	28.2	41.0	27.5	32.6	37.2	27.9	44.2	41.9	34.9	41.9
5	Mechanical Lloyd *Company Limited*	**32.1**	33.3	29.0	31.6	31.6	31.6	31.6	30.2	34.9	34.9	32.6
6	Kumasi Brewery Limited	**26.1**	12.8	5.1	5.0	11.6	11.6	33.3	28.6	50.0	57.1	45.2
7	Aluworks Limited	**25.4**	5.3	5.3	5.3	10.5	10.5	7.9	36.8	53.9	58.1	60.5
8	Accra Brewery Limited	**25.2**	23.1	15.8	15.4	14.0	14.0	16.7	26.2	38.1	37.2	51.1
9	Fan Milk Ghana *Limited*	**24.8**	18.4	15.8	20.5	30.2	27.9	27.9	25.6	25.6	30.2	25.6
10	Super Paper Products Limited	**10.8**	5.3	7.7	7.7	7.7	9.3	16.7	14.0	11.6	14.0	14.0
11	Paterson Zochonis Ghana Limited	**8.8**	5.1	5.1	5.0	4.7	9.3	9.3	9.3	14.0	14.0	11.9
12	Pioneer Aluminium *Factory* Limited	**8.3**	2.6	5.1	2.6	2.6	2.6	5.1	5.3	21.4	19.1	16.7
13	UTC Estates *of Ghana Limited*	**8.2**	5.3	5.3	2.6	2.4	4.9	22.0	14.6	10.0	7.5	7.5
14	Metalloplastica Ghana Limited	**5.3**	5.1	5.1	5.0	4.7	4.7	7.0	7.0	7.0	4.7	2.4
15	CFAO Ghana Limited	**3.5**	5.3	5.3	2.7	5.3	4.7	2.4	2.4	2.4	2.4	2.4
	Voluntary Disclosure Index	**22.0**	**15.7**	**17.0**	**15.9**	**17.8**	**19.4**	**20.9**	**25.1**	**29.8**	**29.9**	**30.4**

APPENDIX 16: DISCLOSURE OF CATEGORIES OF INFORMATION IN GHANA: 1988-1997

Item of information	1988-1997	1988 (%)	1989 (%)	1990 (%)	1991 (%)	1992 (%)	1993 (%)	1994 (%)	1995 (%)	1996 (%)	1997 (%)
PANEL A											
COMPANY BACKGROUND INFORMATION											
Name of enterprise	**100.0**	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Legal form of enterprise	**100.0**	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Auditors opinion	**100.0**	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Address of registered office or principal place of business	**100.0**	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Particulars of company secretary	**100.0**	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Address of each office where securities are kept	**92.7**	86.7	86.7	86.7	86.7	93.3	93.3	93.3	100.0	100.0	100.0
Name of parent enterprise	**62.5**	60.0	60.0	60.0	60.0	60.0	50.0	60.0	60.0	73.3	82.0
Origin of parent enterprise	**50.0**	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0
Description of nature of operations or principal activities	**42.0**	33.3	40.0	40.0	40.0	40.0	33.3	53.3	46.7	46.7	46.7
History of company	**2.6**	0.0	0.0	0.0	0.0	6.7	0.0	6.7	13.3	0.0	0.0
Company Background Information Index	76.5	74.5	75.2	75.2	75.2	76.5	74.5	78.0	79.0	78.2	78.9

APPENDIX 16 (continued): DISCLOSURE OF CATEGORIES OF INFORMATION IN GHANA: 1988-1997

Item of information	1988-1997	1988 (%)	1989 (%)	1990 (%)	1991 (%)	1992 (%)	1993 (%)	1994 (%)	1995 (%)	1996 (%)	1997 (%)
PANEL B											
NON-FINANCIAL AND SOCIAL INFORMATION											
Names of directors	**100.0**	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Industrial relations	**28.0**	13.3	20.0	6.7	6.7	13.3	33.3	33.3	60.0	53.3	40.0
Employee training	**24.7**	6.7	20.0	13.3	20.0	20.0	20.0	13.3	40.0	46.7	46.7
Average number of employees	**20.7**	13.3	20.0	13.3	20.0	20.0	26.7	26.7	26.7	20.0	20.0
Community assisted programmes	**10.7**	6.7	13.3	6.7	6.7	6.7	6.7	6.7	26.7	13.3	13.3
Environmental impact programmes	**9.3**	0.0	13.3	0.0	13.3	13.3	13.3	6.7	13.3	6.7	13.3
Employee welfare programmes	**8.7**	0.0	6.7	6.7	13.3	13.3	0.0	0.0	26.7	6.7	13.3
Objectives or mission and strategies	**6.7**	0.0	0.0	0.0	6.7	6.7	0.0	6.7	6.7	20.0	20.0
Employee safety measures	**2.0**	0.0	0.0	0.0	0.0	0.0	0.0	0.0	6.7	6.7	6.67
Ages of directors	**0.0**	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Professional qualifications of directors	**0.0**	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial experience of directors	**0.0**	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-financial and Social Information index	17.6	11.7	16.1	12.2	15.6	16.1	16.7	16.1	25.6	22.8	22.8

APPENDIX 16 (continued): DISCLOSURE OF CATEGORIES OF INFORMATION IN GHANA: 1988-1997

Item of Information	1988-1997	1988 (%)	1989 (%)	1990 (%)	1991 (%)	1992 (%)	1993 (%)	1994 (%)	1995 (%)	1996 (%)	1997 (%)
PANEL C											
FINANCIAL REVIEW INFORMATION											
Analysis of current results- ratios, amounts percentages changes from previous year etc.	**56.0**	33.3	33.3	33.3	46.7	53.3	60.0	60.0	80.0	80.0	80.0
Factors determining current year's performance	**50.0**	33.3	33.3	33.3	33.3	40.0	53.3	60.0	73.3	73.3	66.7
Qualitative review of results	**48.7**	26.7	33.3	33.3	33.3	40.0	46.7	60.0	66.7	73.3	73.3
Financial summary for at least 3 years	**40.7**	26.7	26.7	26.7	33.3	33.3	46.7	53.3	46.7	53.3	60.0
Factors determining future performance	**36.6**	20.0	13.3	20.0	26.7	33.3	33.3	53.3	53.3	60.0	53.3
Forecast income - qualitative	**8.0**	6.7	6.7	13.3	13.3	6.7	0.0	6.7	6.7	13.3	6.7
Forecast income - quantitative	**5.3**	6.7	0.0	0.0	0.0	0.0	13.3	13.3	6.7	6.7	6.7
Forecast capital expenditure - qualitative	**4.7**	0.0	0.0	0.0	0.0	6.7	0.0	6.7	6.7	6.7	20.0
Forecast revenue - quantitative	**3.4**	6.7	0.0	6.7	0.0	0.0	0.0	6.7	6.7	6.7	0.0
Forecast revenue - qualitative	**3.3**	0.0	0.0	0.0	6.7	6.7	0.0	0.0	0.0	6.7	13.3
Forecast capital expenditure - quantitative	**1.3**	0.0	0.0	6.7	0.0	0.0	0.0	0.0	6.7	0.0	0.0
Financial Review Information Index	23.5	14.6	13.3	15.8	17.6	20.0	23.0	29.1	32.1	34.5	34.5

APPENDIX 16 (continued): DISCLOSURE OF CATEGORIES OF INFORMATION IN GHANA: 1988-1997

Item of Information	1988-1997	1988 (%)	1989 (%)	1990 (%)	1991 (%)	1992 (%)	1993 (%)	1994 (%)	1995 (%)	1996 (%)	1997 (%)
PANEL D											
VALUE ADDED INFORMATION											
Value added amount	**28.0**	20.0	20.0	20.0	20.0	20.0	26.7	33.3	40.0	40.0	40.0
Value added ratios or percentages	**28.0**	20.0	20.0	20.0	20.0	20.0	26.7	33.3	40.0	40.0	40.0
Value added graphs or pie charts	**20.0**	13.3	13.3	13.3	13.3	13.3	13.3	26.7	33.3	26.7	33.3
Qualitative value added	**0.0**	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Period of value added report	**28.0**	20.0	20.0	20.0	20.0	20.0	26.7	33.3	40.0	40.0	40.0
Comparative *value* added information *for* current and preceding years	**28.0**	20.0	20.0	20.0	20.0	20.0	26.7	33.3	40.0	40.0	40.0
Value Added Information Index	22.0	15.6	15.6	15.6	15.6	15.6	20.0	26.7	32.2	31.1	32.2
PANEL E											
ACCOUNTING POLICIES											
Statement of accounting policies	**100.0**	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Basis of valuation of inventories	**100.0**	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Basis of valuation of fixed assets	**100.0**	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Methods of depreciation of fixed assets	**100.0**	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

APPENDIX 16 (continued): DISCLOSURE OF CATEGORIES OF INFORMATION IN GHANA: 1988-1997

Item of information	1988-1997	1988 (%)	1989 (%)	1990 (%)	1991 (%)	1992 (%)	1993 (%)	1994 (%)	1995 (%)	1996 (%)	1997 (%)
Basis of valuation of investment properties	**100.0**	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Basis of accounting	**97.3**	93.3	93.3	93.3	93.3	100.0	100.0	100.0	100.0	100.0	100.0
Methods used to translate balances held in foreign currency	**90.0**	80.0	80.0	86.7	86.7	80.0	86.7	100.0	100.0	100.0	100.0
Depreciation rates or useful lives of each class of fixed assets	**78.0**	73.3	73.3	73.3	73.3	80.0	80.0	86.7	80.0	80.0	80.0
Methods used to translate foreign currency transactions	**66.0**	60.0	60.0	73.3	73.3	66.7	60.0	66.7	66.7	66.7	66.7
Deferred taxation arising from different capital allowances rates and depreciation rates	**53.3**	46.7	46.7	46.7	46.7	53.3	53.3	60.0	60.0	60.0	60.0
Inventory costing methods	**46.0**	40.0	40.0	40.0	46.7	46.7	46.7	53.3	53.3	53.3	46.7
Treatment of exchange differences	**38.0**	20.0	20.0	33.3	33.3	26.7	40.0	53.3	53.3	53.3	46.7
Deferred taxation arising from capital gains on revaluation of fixed assets	**34.7**	31.0	31.0	36.0	36.0	26.7	26.7	40.0	40.0	40.0	40.0
Basis of valuation of trade investments	**27.4**	22.0	22.0	22.0	22.0	22.0	30.0	30.0	30.0	30.0	44.0
Accounting Policies Information Index	73.0	68.4	68.4	71.4	71.4	70.9	72.2	77.1	76.7	76.7	76.6

APPENDIX 16 (continued): DISCLOSURE OF CATEGORIES OF INFORMATION IN GHANA: 1988-1997

Item of information	1988-1997	1988 (%)	1989 (%)	1990 (%)	1991 (%)	1992 (%)	1993 (%)	1994 (%)	1995 (%)	1996 (%)	1997 (%)
PANEL F											
CASH FLOW INFORMATION											
Funds from operations	**94.0**	86.7	86.7	86.7	93.3	93.3	93.3	100.0	100.0	100.0	100.0
Funds from other sources	**94.0**	86.7	86.7	86.7	93.3	93.3	93.3	100.0	100.0	100.0	100.0
Uses of funds other than dividend and taxes paid	**94.0**	86.7	86.7	86.7	93.3	93.3	93.3	100.0	100.0	100.0	100.0
Dividend paid	**94.0**	86.7	86.7	86.7	93.3	93.3	93.3	100.0	100.0	100.0	100.0
Taxes paid	**94.0**	86.7	86.7	86.7	93.3	93.3	93.3	100.0	100.0	100.0	100.0
Working capital analysis	**94.0**	86.7	86.7	86.7	93.3	93.3	93.3	100.0	100.0	100.0	100.0
Analysis of liquid funds	**94.0**	86.7	86.7	86.7	93.3	93.3	93.3	100.0	100.0	100.0	100.0
Comparative cash flow figures for current year and preceding year	**94.0**	86.7	86.7	86.7	93.3	93.3	93.3	100.0	100.0	100.0	100.0
Period of cash flow report	**94.0**	86.7	86.7	86.7	93.3	93.3	93.3	100.0	100.0	100.0	100.0
Cash Flow Information Index	**94.0**	**86.7**	**86.7**	**86.7**	**93.3**	**93.3**	**93.3**	**100.0**	**100.0**	**100.0**	**100.0**

APPENDIX 16 (continued): DISCLOSURE OF CATEGORIES OF INFORMATION IN GHANA: 1988-1997

Item of information	1988-1997	1988 (%)	1989 (%)	1990 (%)	1991 (%)	1992 (%)	1993 (%)	1994 (%)	1995 (%)	1996 (%)	1997 (%)
PANEL G											
PROFITABILITY INFORMATION											
Sales or turnover	**100.0**	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Cost of sales	**100.0**	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Gross profit or operating profit	**100.0**	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
General, selling and administration expenses	**100.0**	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Income tax expense	**100.0**	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Profit before tax	**100.0**	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Profit after tax	**100.0**	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Dividend amount	**100.0**	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Dividend per share	**100.0**	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Auditors' fees and expenses	**100.0**	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Directors' emoluments	**100.0**	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Depreciation expense	**100.0**	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Period of profit and loss account	**100.0**	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Comparative profit and loss figures for current year and preceding year	**100.0**	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

APPENDIX 16 (continued): DISCLOSURE OF INFORMATION IN GHANA: 1988-1997

Item of information	1988-1997	1988 (%)	1989 (%)	1990 (%)	1991 (%)	1992 (%)	1993 (%)	1994 (%)	1995 (%)	1996 (%)	1997 (%)
Profit or loss on disposal of fixed assets	*100.0*	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Income from other sources	**89.5**	85.0	85.0	93.3	86.0	86.0	86.0	93.3	93.3	93.3	93.3
Interest expense	**80.0**	50.0	64.0	79.0	80.0	86.7	86.7	86.7	86.7	86.7	93.3
Amount of exchange gain or loss	**69.2**	40.0	53.3	53.3	46.7	53.3	86.7	93.3	93.3	93.3	79.0
Earnings per share	**52.7**	20.0	26.7	33.3	46.7	53.3	60.0	66.7	73.3	73.3	73.3
Retirement benefit cost	**40.7**	40.0	33.3	33.3	33.3	50.0	66.7	50.0	50.0	50.0	0.0
Return on shareholders' funds	**19.3**	13.3	13.3	13.3	13.3	13.3	20.0	26.7	26.7	26.7	26.7
Net profit margin percent	**18.7**	6.7	13.3	13.3	13.3	13.3	20.0	26.7	26.7	26.7	26.7
Gross profit margin percent	**2.8**	0.0	0.0	0.0	0.0	0.0	0.0	0.0	7.14	7.14	14.0
Price/Earnings ratio	**0.0**	-	-	-	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Inflation adjusted profit or loss	**0.0**	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Profitability Information Index	78.4	75.0	76.6	75.6	75.9	77.6	79.7	80.9	81.4	81.3	80.4

APPENDIX 16 (continued): DISCLOSURE OF CATEGORIES OF INFORMATION IN GHANA: 1988-1997

Item of information	1988-1997	1988 (%)	1989 (%)	1990 (%)	1991 (%)	1992 (%)	1993 (%)	1994 (%)	1995 (%)	1996 (%)	1997 (%)
PANEL H											
STATE OF AFFAIRS INFORMATION											
Total current assets	**100.0**	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Total current liabilities	**100.0**	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Total shareholders' funds	**100.0**	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Total fixed assets	**100.0**	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Stated capital	**100.0**	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Movement in stated capital account	**100.0**	-	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Income surplus account	**100.0**	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Movement in income surplus account	**100.0**	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Revaluation surplus account	**100.0**	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Movement in revaluation surplus account	**100.0**	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Cash in hand and at bank	**100.0**	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Bank overdraft	**100.0**	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Term loans and debentures	**100.0**	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Dividend payable	**100.0**	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

APPENDIX 16 (continued): DISCLOSURE OF CATEGORIES OF INFORMATION IN GHANA: 1988-1997

Item of information	1988-1997	1988 (%)	1989 (%)	1990 (%)	1991 (%)	1992 (%)	1993 (%)	1994 (%)	1995 (%)	1996 (%)	1997 (%)
Trade payable	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Trade receivables	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Amount of capital work-in-progress	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Names of subsidiaries	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Deferred tax liability	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Prepaid expenses	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Accrued expenses	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Trade Investments	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Date on which balance sheet is drawn	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Comparative balance sheet figures for current year and preceding year	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Total amount of inventories	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Amount of each class of inventories	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Gross book value of each class of fixed assets at *beginning* of period	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Gross book value of each class of fixed assets at end of period	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

APPENDIX 16 (continued): DISCLOSURE OF CATEGORIES OF INFORMATION IN GHANA: 1988-1997

Item of information	1988-1997	1988 (%)	1989 (%)	1990 (%)	1991 (%)	1992 (%)	1993 (%)	1994 (%)	1995 (%)	1996 (%)	1997 (%)
Accumulated depreciation of each class of fixed assets at beginning of period	**100.0**	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Accumulated depreciation of each class of fixed assets at end of period	**100.0**	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Net book value of each class of fixed assets at beginning of period	**100.0**	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Net book of each class of fixed assets at end of period	**100.0**	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Additions to gross book value of each class of fixed assets for period	**100.0**	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Disposals from gross book value of each class of fixed assets for period	**100.0**	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Depreciation for period of each class of fixed assets	**100.0**	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Amount of revalued fixed assets	**100.0**	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Indices used to revalue fixed assets-replacement cost, inflation rate etc.	**100.0**	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Number of fully paid shares by class	**97.3**	93.3	93.3	100.0	100.0	93.3	93.3	100.0	100.0	100.0	100.0
Number of authorised shares by class	**96.0**	93.3	93.3	100.0	100.0	93.3	93.3	100.0	100.0	93.3	93.3

APPENDIX 16 (continued): DISCLOSURE OF CATEGORIES OF INFORMATION IN GHANA: 1988-1997

Item of information	1988-1997	1988 (%)	1989 (%)	1990 (%)	1991 (%)	1992 (%)	1993 (%)	1994 (%)	1995 (%)	1996 (%)	1997 (%)
Country of incorporation of subsidiaries	**95.0**	100.0	100.0	75.0	75.0	100.0	100.0	100.0	100.0	100.0	100.0
Total long-term liabilities	**93.3**	86.0	83.3	83.3	80.0	100.0	100.0	100.0	100.0	100.0	100.0
Reconciliation of beginning and end of period number of shares	**93.3**	50.0	83.3	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Nature of business of subsidiary companies	**91.7**	100.0	100.0	75.0	75.0	100.0	100.0	100.0	100.0	100.0	66.7
Ownership or voting interest in subsidiary companies	**90.0**	100.0	100.0	100.0	100.0	100.0	100.0	66.7	66.7	66.7	100.0
Nature of revaluation- professional or management assessment	**86.7**	86.7	79.0	86.7	86.7	86.7	86.7	93.3	93.3	93.3	93.3
Effective date of revaluation of fixed assets	**82.2**	86.7	79.0	86.7	80.0	80.0	80.0	79.0	86.0	79.0	86.0
Reasons for not consolidating accounts of subsidiary company	**80.0**	100.0	100.0	100.0	100.0	0.0	0.0	100.0	100.0	100.0	100.0
Provision for pension benefits	**78.7**	73.3	80.0	80.0	83.0	75.0	86.0	75.0	80.0	80.0	75.0
Cost of revalued assets	**70.1**	54.0	54.0	64.0	66.7	66.7	80.0	79.0	79.0	79.0	79.0
Particulars of independent valuer, if any	**65.0**	64.0	50.0	86.7	57.0	57.0	57.0	77.0	85.0	77.0	69.0
Par or no par value of shares	**64.7**	60.0	66.7	66.7	73.3	73.3	73.3	80.0	80.0	73.3	80.0
Distribution of each class of securities according to categories	**55.5**	-	-	-	20.0	42.0	50.0	46.0	64.0	80.0	86.7

APPENDIX 16 (continued): DISCLOSURE OF CATEGORIES OF INFORMATION IN GHANA: 1988-1997

Item of information	1988-1997	1988 (%)	1989 (%)	1990 (%)	1991 (%)	1992 (%)	1993 (%)	1994 (%)	1995 (%)	1996 (%)	1997 (%)
Net asset per share	**51.3**	33.3	33.3	33.3	33.3	53.3	60.0	60.0	66.7	66.7	66.7
Names of twenty *largest holders of* equity securities	**42.3**	-	-	-	10.0	25.0	33.3	38.0	50.0	66.7	73.3
Number of shares of each class of securities held by each of the twenty largest holders of securities	**42.3**	-	-	-	10.0	25.0	33.3	38.0	50.0	66.7	73.3
Percentage holdings of each class of securities by each of the twenty largest holders of securities	**37.7**	-	-	-	0.0	16.7	16.7	15.0	29.0	40.0	46.7
Number of shareholders	**36.7**	-	-	-	26.7	26.7	26.7	40.0	46.7	60.0	66.7
Each director's interest in the share capital of the company or related company	**32.0**	-	-	-	6.7	26.7	40.0	46.7	63.0	73.3	73.3
Restrictions on remittability of income	**27.6**	42.0	42.0	25.0	25.0	25.0	25.0	17.0	25.0	25.0	25.0
Number of shares not fully paid by class	**25.0**	0.0	50.0	0.0	0.0	33.3	0.0	0.0	50.0	66.7	50.0
Share price trends	**23.0**	-	-	-	10.0	16.7	16.7	23.0	21.0	33.3	40.0
Share price - qualitative comments	**16.2**	-	-	-	20.0	16.7	8.3	7.7	7.1	26.7	26.7
Share price - qualitative comments	**16.2**	-	-	-	20.0	16.7	8.3	7.7	7.1	26.7	26.7
Voting rights attached to each class of shares	**16.0**	-	-	-	6.7	20.0	20.0	20.0	20.0	20.0	33.3
Share price at end of period	**15.3**	-	-	-	0.0	16.7	8.3	15.0	14.0	20.0	33.3

APPENDIX 16 (continued): DISCLOSURE OF CATEGORIES OF INFORMATION IN GHANA: 1988-1997

Item of information	1988–1997	1988 (%)	1989 (%)	1990 (%)	1991 (%)	1992 (%)	1993 (%)	1994 (%)	1995 (%)	1996 (%)	1997 (%)
Debt/Equity ratio	3.4	25.0	0.0	0.0	0.0	0.0	9.1	0.0	0.0	0.0	0.0
Brief description of major freehold and leasehold buildings	3.1	-	-	-	0.0	0.0	0.0	0.0	7.7	7.1	7.1
Location of major freehold and leasehold buildings	3.1	-	-	-	0.0	0.0	0.0	0.0	7.7	7.1	7.1
Inflation adjusted assets, liabilities and capital	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
State of Affairs Information Index	78.0	80.9	80.6	81.4	75.5	74.9	75.5	76.1	77.1	78.6	79.5

APPENDIX 17

DISCLOSURE OF COMPANY BACKGROUND INFORMATION IN GHANA: 1988-1997- COMPANIES SCORES

Rank	Name of Company	1988-1997	1988 (%)	1989 (%)	1990 (%)	1991 (%)	1992 (%)	1993 (%)	1994 (%)	1995 (%)	1996 (%)	1997 (%)
1	Mobil Oil Ghana Limited	**89.0**	80.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0
2	Mechanical Llyod Company Limited	**87.5**	87.5	87.5	87.5	87.5	87.5	87.5	87.5	87.5	87.5	87.5
3	Aluworks Limited	**87.5**	87.5	87.5	87.5	87.5	87.5	87.5	87.5	87.5	87.5	87.5
4	Pioneer Tobacco Company Limited	**83.0**	80.0	80.0	80.0	80.0	90.0	80.0	100.0	90.0	80.0	80.0
5	Unilever Ghana Limited	**80.0**	80.0	80.0	80.0	80.0	80.0	80.0	80.0	80.0	80.0	90.0
6	Paterson Zochonis Ghana Limited	**80.0**	80.0	80.0	80.0	80.0	80.0	80.0	80.0	80.0	80.0	80.0
7	CFAO Ghana Limited	**80.0**	80.0	80.0	80.0	80.0	80.0	80.0	80.0	80.0	80.0	80.0
8	Metalloplastica Ghana Limited	**80.0**	75.0	75.0	75.0	75.0	75.0	75.0	87.5	87.5	87.5	87.5
9	UTC Estates of Ghana Limited	**80.0**	80.0	80.0	80.0	80.0	90.0	70.0	80.0	80.0	80.0	80.0
10	Super Paper Products Limited	**75.0**	75.0	75.0	75.0	75.0	75.0	75.0	75.0	75.0	75.0	75.0
11	Accra Brewery Limited	**70.0**	70.0	70.0	70.0	70.0	70.0	70.0	70.0	70.0	70.0	80.0
12	Pioneer Aluminium Factory Limited	**67.5**	62.5	62.5	62.5	62.5	62.5	62.5	62.5	87.5	75.0	75.0
13	Guinness Ghana Limited	**64.0**	60.0	60.0	60.0	60.0	60.0	60.0	70.0	70.0	70.0	70.0
14	Kumasi Brewery Limited	**62.0**	60.0	60.0	60.0	60.0	60.0	60.0	60.0	60.0	70.0	70.0
15	Fan Milk Ghana Limited	**60.0**	60.0	60.0	60.0	60.0	60.0	60.0	60.0	60.0	60.0	60.0
	Company Background Information Index	**76.5**	**74.5**	**75.2**	**75.2**	**75.2**	**76.5**	**74.5**	**78.0**	**79.0**	**78.2**	**78.9**

APPENDIX 18

DISCLOSURE OF NON-FINANCIAL AND SOCIAL INFORMATION IN GHANA: 1988-1997- COMPANIES SCORES

Rank	Name of Company	1988-1997	1988 (%)	1989 (%)	1990 (%)	1991 (%)	1992 (%)	1993 (%)	1994 (%)	1995 (%)	1996 (%)	1997 (%)
1	Mobil Oil Ghana Limited	**41.7**	41.7	50.0	33.3	41.7	41.7	50.0	41.7	50.0	41.7	25.0
2	Pioneer Tobacco Company Limited	**25.0**	8.3	50.0	8.3	33.3	33.3	16.7	25.0	25.0	25.0	25.0
3	Accra Brewery Limited	**24.2**	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	16.7	25.0
4	Unilever Ghana Limited	**22.5**	8.3	16.7	25.0	25.0	25.0	16.7	8.3	33.3	16.7	50.0
5	Fan Milk Ghana Limited	**21.7**	8.3	16.7	8.3	25.0	33.3	25.0	25.0	25.0	33.3	16.7
6	Guinness Ghana Limited	**20.0**	8.3	8.3	8.3	8.3	8.3	8.3	25.0	41.7	41.7	41.7
7	Paterson Zochonis Ghana Limited	**13.3**	8.3	8.3	8.3	8.3	8.3	8.3	8.3	25.0	25.0	25.0
8	Kumasi Brewery Limited	**17.5**	8.3	8.3	8.3	8.3	8.3	8.3	8.3	50.0	33.3	33.3
9	Aluworks Limited	**15.8**	8.3	8.3	8.3	8.3	8.3	8.3	16.7	25.0	33.3	33.3
10	Mechanical Llyod Company Limited	**12.5**	8.3	8.3	8.3	8.3	8.3	8.3	8.3	25.0	25.0	16.7
11	Super Paper Products Limited	**12.5**	8.3	8.3	8.3	8.3	8.3	16.7	16.7	16.7	16.7	16.7
12	Pioneer Aluminium Factory Limited	**9.1**	8.3	8.3	8.3	8.3	8.3	8.3	8.3	16.7	8.3	8.3
13	CFAO Ghana Limited	**8.3**	8.3	8.3	8.3	8.3	8.3	8.3	8.3	8.3	8.3	8.3
14	UTC Estates of Ghana	**8.3**	8.3	8.3	8.3	8.3	8.3	33.3	8.3	8.3	8.3	8.3
15	Metalloplastica Ghana Limited	**8.3**	8.3	8.3	8.3	8.3	8.3	8.3	8.3	8.3	8.3	8.3
	Non-financial and Social Information Index	**17.6**	**11.7**	**16.1**	**12.2**	**15.6**	**16.1**	**16.7**	**16.1**	**25.6**	**22.8**	**22.8**

APPENDIX 19

DISCLOSURE OF FINANCIAL REVIEW INFORMATION IN GHANA: 1988-1997- COMPANIES SCORES

Rank	Name of Company	1988-1997	1988 (%)	1989 (%)	1990 (%)	1991 (%)	1992 (%)	1993 (%)	1994 (%)	1995 (%)	1996 (%)	1997 (%)
1	Mobil Oil Ghana Limited	**48.2**	45.5	45.5	45.5	45.5	63.6	36.4	45.5	45.5	45.5	63.6
2	Mechanical Llyod Company Limited	**44.6**	45.5	36.4	45.5	45.5	45.5	45.5	45.5	45.5	45.5	45.5
3	Fan Milk Ghana Limited	**42.8**	54.6	36.6	63.6	63.6	45.5	45.5	45.5	45.5	45.5	45.5
4	Guinness Ghana Limited	**41.9**	36.4	36.4	36.4	36.4	36.4	36.4	54.6	36.4	54.6	54.6
5	Unilever Ghana Limited	**38.2**	0.0	36.4	36.4	36.4	45.5	36.4	63.6	45.5	45.5	36.4
6	Pioneer Tobacco Company Limited	**27.3**	9.1	9.1	9.1	9.1	18.2	18.2	54.6	54.6	45.5	45.5
7	Aluworks Limited	**27.3**	0.0	0.0	0.0	18.2	18.2	18.2	45.5	54.6	63.6	54.6
8	Kumasi Brewery Limited	**23.7**	27.3	0.0	0.0	9.1	9.1	27.3	9.1	45.5	63.6	45.5
9	Accra Brewery Limited	**17.3**	0.0	0.0	0.0	0.0	0.0	9.1	9.1	45.5	45.5	63.6
10	Super Paper Products Limited	**16.4**	0.0	0.0	0.0	0.0	18.2	45.5	27.3	18.2	27.3	27.3
11	UTC Estates of Ghana	**10.9**	0.0	0.0	0.0	0.0	0.0	36.4	36.4	18.2	9.1	9.1
12	Pioneer Aluminium Factory Limited	**8.2**	0.0	0.0	0.0	0.0	0.0	0.0	0.0	27.3	27.3	27.3
13	Paterson Zochonis Ghana Limited	**0.0**	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
14	CFAO Ghana Limited	**0.0**	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
15	Metalloplastica Ghana Limited	**0.0**	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	Financial Review Information Index	**23.5**	**14.6**	**13.3**	**15.8**	**17.6**	**20.0**	**23.0**	**29.1**	**32.1**	**34.5**	**34.5**

APPENDIX 20

DISCLOSURE OF VALUE ADDED INFORMATION IN GHANA IN 1988-1997- COMPANIES SCORES

Rank	Name of Company	1988-1997	1988 (%)	1989 (%)	1990 (%)	1991 (%)	1992 (%)	1993 (%)	1994 (%)	1995 (%)	1996 (%)	1997 (%)
1	Unilever Ghana Limited	**83.3**	83.3	83.3	83.3	83.3	83.3	83.3	83.3	83.3	83.3	83.3
2	Pioneer Tobacco Company Limited	**83.3**	83.3	83.3	83.3	83.3	83.3	83.3	83.3	83.3	83.3	83.3
3	Guinness Ghana Limited	**70.0**	66.7	66.7	66.7	66.7	66.7	66.7	83.3	83.3	66.7	66.7
4	Kumasi Brewery Limited	**40.0**	0.0	0.0	0.0	0.0	0.0	66.7	83.3	83.3	83.3	83.3
5	Accra Brewery Limited	**31.7**	0.0	0.0	0.0	0.0	0.0	0.0	66.7	83.3	83.3	83.3
6	Aluworks Limited	**21.7**	0.0	0.0	0.0	0.0	0.0	0.0	0.0	66.7	66.7	83.3
7	Super Paper Products Limited	**0.0**	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
8	UTC Estates of Ghana	**0.0**	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
9	Pioneer Aluminium Factory Limited	**0.0**	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
10	Paterson Zochonis Ghana Limited	**0.0**	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
11	CFAO Ghana Limited	**0.0**	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
12	Metalloplastica Ghana Limited	**0.0**	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
13	Mobil Oil Ghana Limited	**0.0**	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
14	Mechanical Llyod Company Limited	**0.0**	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
15	Fan Milk Ghana Limited	**0.0**	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	Value Added Information Index	**22.0**	**15.6**	**15.6**	**15.6**	**15.6**	**15.6**	**20.0**	**26.7**	**32.2**	**31.1**	**32.2**

APPENDIX 21
DISCLOSURE OF ACCOUNTING POLICIES IN GHANA: 1988-1997- COMPANIES SCORES

Rank	Name of Company	1988-1997	1988 (%)	1989 (%)	1990 (%)	1991 (%)	1992 (%)	1993 (%)	1994 (%)	1995 (%)	1996 (%)	1997 (%)
1	Unilever Ghana Limited	**85.7**	85.7	85.7	85.7	85.7	85.7	85.7	85.7	85.7	85.7	85.7
2	CFAO Ghana Limited	**83.3**	83.3	83.3	83.3	83.3	83.3	83.3	83.3	83.3	83.3	83.3
3	Paterson Zochonis Ghana Limited	**83.1**	76.9	76.9	84.6	84.6	84.6	84.6	84.6	84.6	84.6	84.6
4	Pioneer Aluminium Factory Limited	**80.2**	83.3	83.3	83.3	83.3	76.9	76.9	76.9	76.9	76.9	84.6
5	Mobil Oil Ghana Limited	**77.5**	76.9	76.9	76.9	76.9	76.9	76.9	76.9	76.9	76.9	83.3
6	Kumasi Brewery Limited	**76.9**	76.9	76.9	76.9	76.9	76.9	76.9	76.9	76.9	76.9	76.9
7	Guinness Ghana Limited	**76.1**	76.9	69.2	76.9	76.9	76.9	76.9	76.9	76.9	76.9	76.9
8	Accra Brewery Limited	**73.8**	61.5	61.5	76.9	76.9	84.6	69.2	76.9	76.9	76.9	76.9
9	Aluworks Limited	**69.2**	72.7	72.7	66.7	66.7	66.7	69.2	69.2	69.2	69.2	69.2
10	Pioneer Tobacco Company Limited	**69.2**	61.5	61.5	61.5	61.5	69.2	76.9	76.9	76.9	76.9	69.2
11	Fan Milk Ghana Limited	**68.3**	50.0	50.0	75.0	75.0	58.3	75.0	75.0	75.0	75.0	75.0
12	Super Paper Products Limited	**66.7**	66.7	66.7	66.7	66.7	66.7	66.7	66.7	66.7	66.7	66.7
13	UTC Estates of Ghana	**66.1**	61.5	69.2	64.3	64.3	64.3	64.3	72.7	66.7	66.7	66.7
14	Metalloplastica Ghana Limited	**63.3**	50.0	50.0	50.0	50.0	50.0	58.3	83.3	83.3	83.3	75.0
15	Mechanical Llyod Company Limited	**55.0**	41.7	41.7	41.7	41.7	41.7	41.7	75.0	75.0	75.0	75.0
	Accounting Policies Information Index	**73.0**	**68.4**	**68.4**	**71.4**	**71.4**	**70.9**	**72.2**	**77.1**	**76.7**	**76.7**	**76.6**

APPENDIX 22

DISCLOSURE OF CASH FLOW INFORMATION IN GHANA: 1988-1997- COMPANIES SCORES

Rank	Names of companies	1988-1997	1988 (%)	1989 (%)	1990 (%)	1991 (%)	1992 (%)	1993 (%)	1994 (%)	1995 (%)	1996 (%)	1997 (%)
1	Mobil Oil Ghana Limited	**100.0**	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
2	Pioneer Tobacco Company Limited	**100.0**	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
3	Accra Brewery Limited	**100.0**	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
4	Unilever Ghana Limited	**100.0**	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
5	Fan Milk Ghana Limited	**100.0**	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
6	Guinness Ghana Limited	**100.0**	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
7	Paterson Zochonis Ghana Limited	**100.0**	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
8	Kumasi Brewery Limited	**100.0**	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
9	Aluworks Limited	**100.0**	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
10	Super Paper Products Limited	**100.0**	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
11	Pioneer Aluminium Factory Limited	**100.0**	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
12	CFAO Ghana Limited	**100.0**	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
13	UTC Estates of Ghana	**100.0**	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
14	Metalloplastica Ghana Limited	**70.0**	0.0	0.0	0.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
15	Mechanical Llyod Company Limited	**40.0**	0.0	0.0	0.0	0.0	0.0	0.0	100.0	100.0	100.0	100.0
	Cash Flow Information Index	**94.0**	**86.7**	**86.7**	**86.7**	**93.3**	**93.3**	**93.3**	**100.0**	**100.0**	**100.0**	**100.0**

APPENDIX 23

DISCLOSURE OF PROFITABILITY INFORMATION IN GHANA: 1988-1997- COMPANIES SCORES

Rank	Name of Company	1988-1997	1988 (%)	1989 (%)	1990 (%)	1991 (%)	1992 (%)	1993 (%)	1994 (%)	1995 (%)	1996 (%)	1997 (%)
1	Aluworks Limited	**82.9**	76.2	76.7	76.2	76.2	80.0	80.0	91.0	95.5	87.9	90.0
2	Kumasi Brewery Limited	**81.9**	73.9	78.3	75.0	78.3	82.6	87.0	87.0	87.0	87.7	82.1
3	Pioneer Aluminium Factory Limited	**81.7**	75.0	77.8	81.0	81.0	81.0	81.8	81.8	81.8	89.5	86.0
4	Mobil Oil Ghana Limited	**81.1**	73.9	78.3	82.6	79.2	78.3	82.6	82.6	82.6	85.5	85.7
5	Guinness Ghana Limited	**81.0**	78.3	82.6	79.2	78.3	78.3	82.6	82.6	81.8	83.3	83.3
6	Unilever Ghana Limited	**79.6**	77.3	81.8	79.2	79.2	79.2	79.2	79.2	79.2	80.0	81.4
7	Paterson Zochonis Ghana Limited	**79.3**	72.7	72.7	75.0	75.0	82.6	81.7	82.6	82.6	84.4	84.1
8	Pioneer Tobacco Company Limited	**77.9**	78.3	78.3	75.0	75.0	79.2	79.2	79.2	79.2	74.6	81.4
9	Accra Brewery Limited	**77.5**	72.3	72.7	73.9	78.3	78.3	81.0	81.0	81.0	70.2	86.6
10	Fan Milk Ghana Limited	**76.7**	76.2	71.4	68.2	75.0	78.3	82.6	82.6	82.6	73.7	75.9
11	CFAO Ghana Limited	**76.0**	78.3	78.3	76.2	78.3	78.3	76.2	76.2	76.2	70.9	70.9
12	Mechanical Llyod Company Limited	**75.3**	73.9	71.4	71.4	71.4	75.0	75.0	82.6	82.6	75.0	74.6
13	Metalloplastica Ghana Limited	**74.5**	69.6	73.1	70.8	70.8	73.9	78.3	78.3	78.3	78.6	73.7
14	UTC Estates of Ghana	**73.5**	78.3	78.3	72.7	71.4	71.4	76.2	76.2	80.0	65.1	65.1
15	Super Paper Products Limited	**70.1**	70.0	77.3	77.3	71.4	68.2	71.7	71.4	71.4	61.5	61.5
	Profitability Information Index	**78.4**	**75.0**	**76.6**	**75.6**	**75.9**	**77.6**	**79.7**	**80.9**	**81.4**	**81.3**	**80.4**

APPENDIX 24

DISCLOSURE OF STATE OF AFFAIRS INFORMATION IN GHANA: 1988-1997- COMPANIES SCORES

Rank	Name of Company	1988-1997	1988 (%)	1989 (%)	1990 (%)	1991 (%)	1992 (%)	1993 (%)	1994 (%)	1995 (%)	1996 (%)	1997 (%)
1	Aluworks Limited	85.4	80.0	81.0	83.7	83.3	82.6	83.0	91.5	90.4	88.3	90.0
2	Mobil Oil Ghana Limited	84.4	84.6	85.2	85.2	74.2	86.7	83.6	85.9	85.9	85.9	86.2
3	Pioneer Aluminium Factory Limited	83.5	81.8	81.8	80.0	81.3	81.6	81.6	83.0	87.9	89.8	86.2
4	Guinness Ghana Limited	82.6	86.5	88.5	86.3	72.9	73.8	81.7	82.0	86.7	83.9	83.7
5	Paterson Zochonis Ghana Limited	80.8	77.8	79.6	80.0	68.8	82.3	82.3	83.9	84.1	84.9	84.6
6	Kumasi Brewery Limited	80.7	82.0	82.4	82.4	73.7	74.1	75.9	82.8	82.8	88.1	82.8
7	Unilever Ghana Limited	80.0	84.9	84.9	86.8	78.7	79.4	75.4	73.8	73.3	80.3	82.0
8	Accra Brewery Limited	77.0	87.8	80.9	85.4	70.7	71.7	72.1	71.7	71.2	71.2	87.1
9	CFAO Ghana Limited	76.8	83.3	85.4	82.6	88.3	73.7	72.4	72.4	70.9	71.9	71.9
10	Pioneer Tobacco Company Limited	76.0	72.0	72.0	78.0	78.1	75.8	75.8	75.4	75.8	75.4	82.0
11	Fan Milk Ghana Limited	75.8	82.0	83.0	81.1	73.7	70.0	71.2	69.5	76.3	75.6	76.3
12	Metalloplastica Ghana Limited	74.2	77.6	78.0	78.0	66.7	66.7	73.2	72.7	73.7	79.3	76.4
13	Mechanical Llyod Company Limited	74.1	78.4	70.6	75.9	78.2	72.0	72.0	71.7	70.7	75.9	75.4
14	UTC Estates of Ghana	71.0	81.1	81.1	81.5	69.8	69.4	68.9	62.5	63.4	65.9	65.9
15	Super Paper Products Limited	67.5	73.9	74.5	74.5	73.9	63.2	63.6	63.0	63.0	63.0	62.3
	State of Affairs Information Index	**78.0**	**80.9**	**80.6**	**81.4**	**75.5**	**74.9**	**75.5**	**76.1**	**77.1**	**78.6**	**79.5**

APPENDIX 25

OBSERVANCE OF IASC STANDARDS IN GHANA: 1988-1997-COMPANIES SCORES

Rank	Names of companies	1988-1997	1988 (%)	1989 (%)	1990 (%)	1991 (%)	1992 (%)	1993 (%)	1994 (%)	1995 (%)	1996 (%)	1997 (%)
1	Mobil Oil Ghana Limited	**92.9**	90.4	92.9	92.9	92.9	92.6	93.9	92.9	92.9	92.9	94.9
2	Pioneer Aluminium Factory Limited	**92.1**	91.9	91.9	92.1	92.4	91.4	91.1	91.0	92.4	92.6	93.8
3	CFAO Ghana Limited	**91.9**	91.1	92.4	91.0	91.1	92.3	92.4	92.4	92.2	92.2	92.1
4	Aluworks Limited	**91.8**	91.6	91.8	91.3	81.1	92.1	92.3	92.3	92.7	91.4	91.4
5	Accra Brewery Limited	**91.0**	86.1	84.6	91.1	92.4	93.8	91.5	92.6	92.5	92.5	92.8
6	Paterson Zochonis Ghana Limited	**90.4**	85.5	86.8	89.4	89.4	91.5	91.5	92.7	92.8	93.0	91.8
6	Unilever Ghana Limited	**90.4**	90.5	90.5	90.6	90.5	90.7	90.5	90.5	90.4	90.4	89.3
8	Kumasi Brewery Limited	**92.1**	86.1	84.6	91.1	92.4	93.8	91.5	92.6	92.5	92.5	92.8
9	Fan Milk Ghana Limited	**88.2**	86.4	85.7	88.1	87.5	86.3	89.9	89.9	89.9	89.9	88.8
10	UTC Estates of Ghana Limited	**88.0**	85.7	86.9	86.2	86.1	87.1	88.1	90.6	89.4	89.9	89.9
11	Guinness Ghana Limited	**87.1**	86.8	85.7	85.5	85.2	85.5	87.8	88.0	90.1	88.1	88.1
12	Pioneer Tobacco Company Limited	**85.2**	80.3	80.3	84.0	84.9	86.9	86.9	88.0	86.9	86.8	86.8
13	Super Paper Products Limited	**83.4**	84.2	85.5	85.5	83.8	81.6	84.2	83.3	83.3	83.3	83.8
14	Metalloplastica Ghana Limited	**83.8**	69.6	71.3	71.3	83.3	84.4	88.2	93.3	93.5	92.3	90.5
15	Mechanical Lloyd Comp any Limited	**74.0**	65.9	61.0	65.5	67.1	62.5	62.5	88.8	88.5	88.5	89.6
	IASC Conformity Index	**88.0**	**84.9**	**85.1**	**86.2**	**87.1**	**87.2**	**88.0**	**90.4**	**90.5**	**90.2**	**90.2**

APPENDIX 26

US DOLLAR AND GHANA CEDI EXCHANGE RATES: 1988-1997[1]

Year	Cedis/US$
1988	221.10
1989	301.63
1990	344.73
1991	368.03
1992	619.06
1993	792.92
1994	1036.65
1995	1417.10
1996	1722.21
1997	2225.19

[1]Rates are the inter-bank quotations on 31 December

Source: Research Department, Bank of Ghana.

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